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ECONOMIC DIGEST

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ECONOMIC DIGEST

AUGUST, 1953 VOLUME VI NUMBER EIGHT

Trends in Public Expenditure

BY PROFESSOR R. C. TRESS
(*University of Bristol*)

PUBLIC expenditure is composed broadly of three elements: military expenditure, social service expenditure and the costs of administration.

It is surely inevitable that all three should grow in absolute terms with growth in national income and population: military expenditure because it is internationally competitive, social service expenditure because of an increasing population requiring existing services and because there are always sub-marginal services pressing for recognition, and costs of administration because these are related to the other two.

It is probable that all three should grow relatively to the national income as national income rises: it is obviously easier to extract a sizeable proportion of any extra income for such purposes than it is to divert income from established private uses. But at what pace?

The growth of public expenditure must be considered in two stages.

(1) First, there is 'government expenditure on goods and services': the quantity of real resources which the public authorities appropriate out of the total national product to bestow free of charge upon the public in the social services they enjoy and the defence and police services which enable them to sleep more soundly in their beds.

(2) Secondly, there is 'total government current expenditure', got by the addition to expenditure on goods and services of 'transfer payments', i.e. cash payments to holders of national debt and to the recipients of social security benefits.

In the analysis of the use of *real* resources, the effect of these cash transfers falls under the head of private, not government, consumption. Moreover, though they add to the tax burden, they also, unlike direct expenditure on goods and services, add simultaneously to the private income from which taxation can be raised: the bond-holder pays income tax on his interest receipt and the old age pensioner pays tax on his tobacco. The net weight of transfer payments on taxable capacity is therefore smaller than their gross weight.

Government Claims Compared

Table I shows the direct claims, pre-war and post-war, made on real resources by 'government expenditure on goods and services' in certain Western European countries, Canada and the United States. The figures are of percentages of gross national product. The first half of the table, by relating all figures to the single yardstick of 1949 national products, gives the absolute trends. The second half of the table shows these trends as shares in the national products of their years, thereby allowing for the growth of national incomes as well

From Trends in Public Finance, Lloyds Bank Review, London, July 1953

TABLE I

GOVERNMENT CLAIMS ON REAL RESOURCES, 1938-1951

Country	Government expenditure on goods and services as percentage of 1949 national product			Government expenditure on goods and services as percentage of current national product		
	1938	1949	1951	1938	1949	1951
	%	%	%	%	%	%
Denmark ...	9	11	13	10	11	11
France	10	12	13	11	12	12
Netherlands ...	6	11	12	9	11	12
Norway ...	6	10	13	7	10	9
Sweden	7	12	14	9	12	12
United Kingdom	10	16	17	13	16	17
Canada† ...	7	13	17	14	13	15
U.S.A.† ...	10	17	27	15	17	19

† U.S.A. and Canada: Government expenditure includes items of public investment as well as current expenditure.

as of government demands.

The absolute growth in direct government expenditures is apparent for all countries listed in Table I though least for France and Denmark. By 1949, all five Continental countries were deploying some 10-12 per cent of their national products for government-controlled purposes and this position has been maintained since, except that a substantial absolute growth in Norwegian 'government consumption' was more than offset by advance in national output.

The history of the English-speaking countries is different. Their pre-war scale of government consumption was above the Continental average; consequently, their post-war growth has been the more remarkable. The 'relative' figures for the United States Canada and United Kingdom in 1952 were 22, 19 and 19 per cent respectively, compared with 10 per cent in Norway.

A qualification must, however, be made in respect of the American, and to a less extent the Canadian, figures. In all the European countries, 'government expenditure' as recorded is exclusively expenditure on current items, while government capital investment is shown with other investment as a claimant to public and private savings. 'Government expenditure' in United States' statistics includes all, and in Canadian statistics includes some government capital investment, with the result that the 'government expenditure' figures are so much the higher and the figures of government savings (the budget surplus) are correspondingly lower. This difference in statistical treatment is particularly important when, in the United States and Canada, there has been considerable government investment in 'defence facilities'.

U.K. Bears Maximum Burden

Allowing for this difference of definition, the United Kingdom's load of direct government expenditure on goods and services stands out as unusually high. Furthermore, only the latest additions to our rela-

tive load, those since 1951, are to be ascribed to defence expenditure. In the cases of the Continental countries, services other than defence, though they increased up to 1951 in absolute terms, grew very little as a proportion of current national product, as can be seen from Table II. For these countries, the increases of load, compared with pre-war, were due to greater defence expenditure, even in the case of Sweden. Not so with the United Kingdom. The United Kingdom was carrying quite a heavy defence load in 1938 and, proportionately, it was no higher in 1951 (though it has risen since). Up to 1951, the large relative increase in direct government claims on real resources in Britain resulted mainly from expanded social services and from a greater amount of administration.

The pattern largely repeats itself when transfer expenditure is added to the picture. Direct cash payments —which, it must be remembered, include national debt interest as well as social security benefits—have expanded more rapidly than gross national product only in the United Kingdom, the United States and Sweden. Subsidy payments have risen in relation to the national income only in the United Kingdom and Norway. The combined result is that only in the United Kingdom did total government expenditure exceed one-quarter of the gross national product in 1951.

TABLE II

GOVERNMENT EXPENDITURE AND REVENUE, 1938 AND 1951

Percentages of current Gross National Products

1938	Expenditure on Goods and Services			Transfer Expenditure			Total expenditure	Surplus	Total Revenue
	Defence	Other	Total	Cash	Subsidies	Total			
Denmark	1	9	10	6	—	6	16	4	20
Netherlands	2	7	9	8	—	8	17	1	18
Norway	1	6	7	4	1	5	12	6	18
Sweden	2	7	9	3	1	4	13	6	18
United Kingdom ...	7	6	13	5	1	6	19	—2	17
Canada	...	...	14	8	1	9	23	—3	20
U.S.A.	2	14	15	4	—	4	19	—2	18
1951									
Denmark	2	9	11	5	1	6	17	5	21
Netherlands	5	8	12	6	1	7	19	9	28
Norway	4	6	9	4	4	8	17	11	27
Sweden	4	8	12	6	1	7	19	8	27
United Kingdom ...	7	10	17	6	3	9	26	6	32
Canada	5	10	15	7	—	7	22	2	24
U.S.A.	11	8	19	5	—	5	24	2	26

All figures rounded to nearest unit.

U.K. Labour Party's Programme

A Socialist criticism of 'Challenge to Britain', produced by the Labour Party Executive for discussion at the Annual Conference next month

LET us face the facts by all means. Let us admit that the economic facts set limits to what can be materially achieved at this time in the social services and elsewhere. But realism alone is not enough. Without some vision of the good society there can be no sustained progress, no readiness to do battle with all the forces of inertia, tradition and established interest which help to maintain the social *status quo*. National survival is a necessary but negative aim. If we were clearly on the verge of complete disaster it might unleash a great national effort, but we are not. The dangers are less obvious than they are, say, in wartime. They do not by themselves suffice to dispel the belief that we can muddle through. The dynamic required even to achieve the necessary economic expansion at this time will not be developed by economic arguments, or by economic incentives or, for that matter, by appropriate forms of economic organisation alone. Our post-war experience has amply shown that something more is required.

Incentives Lacking

At one point in the new programme a vital question is raised. 'What incentives', it is asked, 'shall we use in calling on the British people to postpone an improvement of their living standards and to watch while the fruits of their hard work are used not to increase the supply of goods in the shops, but for building new furnaces and factories?' What incentives, it might also be asked, will give the impulse to hard work itself and hard thought, as well, on the part of those with leading responsibilities in industry? Alas, the programme does not even attempt an answer to the question it poses. The Tories are berated for their policy: 'The capitalist is to be given the incentive of higher profits. The worker is supposed to be driven to higher output by the pressure of rising living costs.' But nothing is put in its place. If we reject the carrot and the stick as the main instruments of material progress, then we must have something to say about the socialist alternative. No socialist can possibly believe any longer that the mere fact of public ownership or public control inevitably creates a spirit of public service.

Industrial Relations

All this is most forcibly illustrated by what is, perhaps, the most striking omission from the programme—the lack of any reference to industrial relations. A completely mechanistic view of industry becomes by default the underlying assumption. The human factor is totally ignored. It would appear that economic expansion can be achieved simply by changing the form of industrial organisation. We do not believe for a moment that any member of the National Executive subscribes to this view. But if this is so, here at least the vision of a good society should find some expression and some further steps towards it should be proposed. Without them it is extremely doubtful whether further changes in the economic structure can solve the problem of national survival.

From Socialist Commentary, London, July 1953

Currency Convertibility

'A Practical Problem of the Greatest Urgency'

Granting of credits directly by the central bank for the purpose of covering a government deficit or paying for part of a country's capital investment is now recognised as an inflationary and, therefore, dangerous mode of financing.

What is not so clearly understood is that *the practice of borrowing from commercial banks for such purposes may also be fraught with considerable inflationary danger.* The provision of funds by the banks for 'refinancing purposes' or in the form of 'medium-term credits' may appear harmless enough, but if such credits continue to be granted without any subsequent 'unloading' through the formation of real savings, thus leading to repeated inflationary issues of newly-created purchasing power, the economic disorganisation and the monetary distrust which are bound to ensue will deprive the economy of much of the benefit which it would otherwise have derived from the increase in physical investment, so that the final result may even be a net loss.

(1) In the first place, the disorganisation and distrust that inflationary methods engender will impede the growth of genuine savings, which constitute, after all, the only reliable basis for the maintenance of a satisfactory level of investment over a protracted period of time; and they will encourage that kind of wastefulness which consists in the undertaking of the unnecessary and badly-managed investments which are characteristic of a flight from the currency.

(2) Secondly, it has been demonstrated beyond any possibility of doubt that the inflationary financing of investment leads to the exhaustion of monetary reserves. For that very reason such methods of financing cannot continue to be used for long, but the fear of a decline in the reserves makes the authorities particularly prone to adopt stop-gap measures and thus leads them to impose, under the pretext of remedying the increasing 'foreign exchange shortage', a series of import restrictions, even though they know that these can at best afford only temporary relief to their balances of payments. Such restrictions, by creating a *de facto* protectionism which enables prices to be kept high, and inefficient methods of production to be retained, run directly counter to the aims of the investment programmes.

Controls and Savings

It is interesting that in the U.S.S.R.—the most important of the countries with centrally-planned economies—no use has been made of inflationary methods of financing in the reconstruction and development which has been undertaken since the second world war; instead, a vigorous official campaign has been carried out to promote the formation of savings which, though often 'forced', have undoubtedly been

From Twenty-Third Annual Report, Bank for International Settlements, Basle, June 8, 1953

genuine.

For countries whose economies are not based on a system of centralised planning, it would be the worst possible mistake to imagine that recourse to credit expansion could replace, for any length of time, a flow of genuine savings. For there will soon come a time when no armoury of direct controls will be able to prevent the public from trying to protect itself by getting rid of money in which it has lost confidence; and it will then no longer be possible to obtain any real fresh resources by further bursts of inflationary financing. Once this stage has been reached, the authorities have perforce to bow to the inevitable and to recognise that *the restoration of a healthy currency is not only the most urgent but also the most remunerative form of investment.*

It follows that no real progress can be made on either the national or the international plane unless internal balance is established in the individual countries by eliminating the last vestiges of inflation. But it is also clear that no durable monetary system can be built without a widening of the channels of world trade. Import restrictions must, therefore, be regarded not as a permanent feature but as intolerable hindrances to a healthy flow of trade —and a high tariff is in itself a permanent import restriction.

Freedom of payments is unthinkable without a considerable degree of freedom of world trade. In the financial sphere, too, there are certain conditions which must be fulfilled: the resources necessary to provide a firm basis for the new order must be made available in one way or another, i.e. by the formation and maintenance of adequate reserves, through the action of already established international organisations or through the creation of specially constituted national convertibility funds.

Progress Report

In the past few years one country after another has succeeded in meeting its current expenditure and in financing its public and private investments without any abuse of bank credit; and by strengthening their monetary reserves these countries have paved the way for a definitive rehabilitation of their currencies.

It is true that there is still much to be done in order to establish *capital markets wide enough to finance a large volume of investment.* Monetary confidence is not everywhere sufficiently firmly rooted for long-term contracts drawn up in terms of current values to be accepted at normal interest rates; it is, indeed, questionable whether such a degree of confidence will be attained until the various currencies have been linked to one another by an international system with convertibility as its essential feature. The present division of the world into semi-closed economies—partitioned off from one another by the many remaining controls—militates against the flow of funds from one market to another and thus impedes the spontaneous undertakings of a number of highly desirable investments which would most probably be carried out if there existed the minimum of security offered by the existence of foreign exchange markets free from administrative regulations.

It is being realised more and more clearly that systems of exchange control provide no real solution for the monetary problems of the various countries, for exchange control is powerless to prevent a crisis from

spreading from one country to another, as has so often occurred during recent years. From the commercial point of view, too, convertibility is becoming more and more a necessity, for the existence of free commodity markets, in which the prices quoted will be a true reflection of supply and demand, is almost unthinkable unless there are opportunities for corresponding dealings in equally free foreign exchange markets. With the restoration of free trading in staple commodities, in fact, one of the elements necessary for currency convertibility is already present. Hence it is hardly surprising that, eight years after the cessation of hostilities, the question of currency convertibility is no longer being discussed merely as one of several interesting theoretical possibilities but as a practical problem of the greatest urgency.

When Marshall aid was inaugurated, production in most European countries was well below the pre-war level, the money supply was excessive in relation to the current national income, and most countries were losing gold to the United States; if the situation were still the same, one might be bound to admit that there are reasons for further delay and hesitation. But in all these respects very great progress has been made, and in considering the balance-of-payments difficulties with which the individual countries are still beset it should not be forgotten that the very establishment of effective exchange markets sets in motion powerful equilibrating forces.

The essential thing at the present moment is to see clearly not only what positive steps need to be taken, but also *the very real dangers which would be entailed by excessive delay.*

It is doubtful, indeed, whether a lasting equilibrium can be achieved so long as commercial and foreign exchange transactions continue to be restricted by administrative regulations, which are, by their very nature, arbitrary. Rationing tends to perpetuate shortages in the case of foreign exchange just as in that of any other commodity. Only through the establishment of wide and effective exchange markets will it be possible to get back to realities and restore the necessary degree of equilibrium —an equilibrium which will then be constantly safeguarded by the ever-active forces operating in a genuine market.

Road Back to Inflation

There is yet another danger: if the distrust that so often attaches to non-convertible currencies is allowed to continue and at the same time a revival of international capital movements is impeded by excessively rigid systems of foreign exchange control, a number of countries are likely to be without the resources which they need in order to maintain the rate of economic progress and the level of employment that modern opinion rightly considers to be essential. If a situation were thus created in which these countries had neither foreign capital nor sufficient domestic savings at their disposal, the temptation would be strong to turn once more to the banking system in order to finance investments and perhaps even to cover government deficits—but a return to such practices would mean a recrudescence of inflation, and in this event Europe's efforts to restore proper monetary relations would suffer a serious setback.

It is only natural that the countries of Europe, dependent as they are on imports for their supplies of

food and raw materials, should attach great importance to the conditions governing their trade and payments relations with overseas countries, both in the dollar area and elsewhere. Europe's whole history shows that the periods when it has been cut off from other regions of the world have been its dark ages.

There is by now sufficient evidence to prove that monetary rehabilitation, whether it be a reform undertaken by individual countries or a reorganisation on an international level, cannot come into being semi-automatically, as a mere by-product of a physical increase in production. An international monetary system does not require that the same policy should be pursued in every sphere, but the individual countries must abstain from using inflationary methods of financing and, in particular, see to it that expenditure on consumption and investment does not exceed the currently available resources. By the very fact of convertibility, countries will be compelled to maintain standards of monetary discipline which will, at one and the same time, give their own people an honest and reliable currency and make it possible for them to become members of an international monetary system. Convertibility is a flexible bond which constitutes the most effective and the least rigid form of integration.

Prudence itself demands that the movement which is at present carrying most of the countries in Europe towards genuine convertibility should not be allowed to lose its momentum but should, on the contrary, be accelerated.

(*Further extracts from the B.I.S. Report will be published next month.*—Ed., E.D.)

SAVINGS BANK DEPOSITS IN U.S.S.R.

BY A. MAXIMOV

Since the war, savings bank deposits in the U.S.S.R. have increased fourfold as compared with the pre-war period. From January 1946 to January 1951 the number of depositors went up by 9,300,000, and last year an additional 3,200,000 people opened accounts in the savings bank. In Baku, the centre of the biggest oil region in the U.S.S.R., one savings bank alone has received about half a million roubles in the past six months from workers who have obtained their long-service bonuses. According to K. Agayeva, director of the Baku savings bank mentioned above, deposits in that bank have increased by 14 million roubles in six years, and the number of depositors has gone up by 10,000. The same process can be observed in all the Soviet cities and republics. Take, for example, Archangel in the north of the U.S.S.R. More than 84,000 people in Archangel have savings bank accounts. Last year their savings increased by 12 million roubles, and this year the rate of increase is still higher, for judging by the figures for the first quarter of 1953, the Archangel savings banks will receive about 14 million roubles this year in new deposits. The total figure for savings bank deposits in the Archangel region is three times what it was before the war.

In Rubtsovsk, in Siberia, deposits in the savings bank last year were 2,250,000 roubles more than in 1951. A total of 1,800,000 roubles was deposited with the savings banks in the first three months of this year. One out of every four factory and office workers in Rubtsovsk has a savings account.

In the Kazakh S.S.R. we find a similar increase in savings bank deposits. The number of depositors in the Kazakh republic has gone up by 24,000 this year. Deposits for the first quarter of this year total more than 30 million roubles. The rural savings banks of Kazakhstan alone have received about 10 million roubles, or double the corresponding figure for the first quarter of last year. The total savings shown on the balance sheets of the Kazakh savings banks at the end of 1940 amounted to 7,300 million roubles. On January 1, 1946, the figure was 9,000 million roubles, and on January 1, 1951, 18,500 million. Moreover, savings are now being left in the banks for longer periods.

From Soviet News, Soviet Embassy, London, June 13, 1953

First Steps Towards Convertibility

Final steps to currency freedom must wait upon development of American policy. Meantime Europe can make practical progress by means which are here discussed

A DIRECT plunge into full convertibility of sterling into dollars cannot be contemplated until and unless a reasonably good creditor policy is followed by the United States.

But, since in practice American policy is likely to take shape only gradually, some preparatory work is necessary in the meantime, and this preparatory work must be directed towards the idea of making sterling convertible gradually. It is to this end that the discussions in March with the Organisation for European Economic Co-operation and the more recent talks with individual European governments have been directed.

It is well known that the United Kingdom Government, in consultation with the other Commonwealth Governments, have worked out their ideas for gradual progress towards convertibility in great detail. But no more than the outlines of these ideas have been permitted to be known.

Perhaps 'convertibility' is too limited a concept to cover the Government's comprehensive plan, which aims eventually at a general expansion of free multilateral trade as well as multilateral convertibility of currencies. In the Government's view, evidently, wider freedom of trade and wider freedom of currency exchange should and must go hand in hand. In both these spheres many general and technical problems arise once the freedom is conceived as extending beyond the sterling area and Western Europe, for so far most of the practical freedom of trade and exchange has been achieved within these boundaries.

Barrier of Import Controls

It is true that the General Agreement on Tariffs and Trade has been an important instrument for reducing tariffs and even for limiting quantitative restrictions of trade over a much wider area. But in practice existing quantitative import controls, maintained since the war, have been by far the most important barrier to trade. It is only the 'liberalisation of trade' arrangements within the O.E.E.C., based on definite objectives expressed as percentages of imports and sanctioned by definite provisions for consultation and the scrutiny of cases of default, which have made much practical contribution to lowering these barriers.

Exchange convertibility has similarly been largely confined to the sterling area and the European Payments Union. The E.P.U., with the help of an almost automatic system of credit from surplus countries to deficit countries, has succeeded in

From 'Routes to Convertibility', The Times Review of Industry, London, July 1953

keeping the Western European currencies mutually convertible—in the sense that private earners of any currency have been able to sell it to their own central bank against their own currency and the balances between the central banks have been settled multilaterally.

The aim is to widen the sphere of 'trade-liberalisation' and of exchange-convertibility simultaneously—to advance *pari passu* on both fronts. It it necessary to avoid both over-ambitious removal of exchange restrictions, if that would necessitate tighter restriction of trade, and over-ambitious removal of trade restrictions, if that would necessitate tighter restriction of monetary exchange.

Revision of G.A.T.T.

It follows, therefore, that there is no idea of securing convertibility of sterling at the expense of the liberalisation of European trade. On the contrary, the United Kingdom's proportion of uncontrolled imports from O.E.E.C. countries, which has been reduced (on balance) from about nine-tenths to about three-fifths of total imports from those countries by the crisis measures of 1951-53, must be steadily increased once again.

At a certain point, however, liberalisation of trade must be taken out of its narrower European setting and applied to a wider field. The instrument which naturally stands ready for this purpose is G.A.T.T. But the trouble about G.A.T.T. is that although it has proved an admirable forum for the negotiation of mutual and multilateral reductions of tariffs and also for the review of quantitative restrictions of trade, it has not been much use for negotiating the reduction of these quantitative restrictions. It has never had a clear and definite procedure for negotiating or mutually introducing such relaxations; it has not had anything like such clear and definite rules for seeing that concessions are maintained—for the maintenance, that is, of liberalisation—as has the O.E.E.C. liberalisation plan. It is entirely natural, therefore, that the United Kingdom's plan includes as one of its main components the revision of the G.A.T.T. system on principles bearing more resemblance to those of O.E.E.C.

Three Possible Limits

In the first stage, possibly, G.A.T.T. would serve as a forum for the negotiation of release of imports from quantitative restrictions. In any case, whether such liberalisation were negotiated in detail or agreed on a broad front, the ban on imposing or reimposing quantitative restrictions would be strengthened greatly compared with its present form. There would no longer be any ordinary right to impose quantitative restrictions in case of balance-of-payments difficulties.

It is suggested, indeed, that the circumstances justifying the use of quantitative controls would be limited to three. One would be the simple case of using controls against countries which would not lift their own controls—a mere negative reciprocity; another would be the need to protect industrial or other production which was vital to national security in the strict strategic sense; the third, and no doubt the most contentious, would be the right to discriminate against creditor countries with 'scarce currencies' (in something resembling the International Monetary Fund sense). This last proviso would be an essential part of the liberalisation procedure as seen

by the United Kingdom Government.

Clearly liberalisation of trade would not go far along these lines without concurrent steps in the direction of convertibility being taken. Such steps are, of course, already being taken. The United Kingdom Government see convertibility of sterling essentially in terms of making sterling once again a world currency with which anything can be bought and which can be used for any purpose in any part of the world. Every easing of any restriction on the use of sterling by an oversea resident, every addition to the freedom of the commodity markets in Britain, and every increase in the inter-changeability of sterling between residents of different oversea countries can be regarded from this point of view as an increase of sterling's convertibility.

None the less, there must come one crucial point—the point at which oversea earners of sterling can get the equivalent of dollars or gold with their sterling. Possibly it does not matter much whether this facility comes about through the ability of these oversea earners to buy, with their sterling, dollar commodities such as wheat and cotton, or through their being given the right to transfer their sterling to American accounts, which would mean that they could buy dollars against sterling at the ordinary official rate of exchange. In either case sterling would become effectively a convertible currency.

Withdrawal from E.P.U.

The first thing that becomes clear is that, with sterling convertible, this country would not continue to belong to E.P.U. Since no trader in the other member-countries would sell convertible sterling to his own central bank the system would no longer work. Switzerland has, indeed, devised a scheme for combining a convertible currency with E.P.U. membership—by making the Swiss francs earned by E.P.U. members inconvertible; but that scheme would not suit the United Kingdom, whose interest lies in restoring sterling's old status as a world currency. It is contemplated, therefore, that Britain—probably together with any other European country that made its currency convertible—would withdraw from the E.P.U., although at this stage the European trade-liberalisation system would still continue. Furthermore, it is thought that the E.P.U. would continue as the joint organisation of those countries whose currencies remained inconvertible.

Withdrawal from E.P.U. might presumably precede full convertibility of sterling, and some interim period of preparation would be needed.

Apart from this, convertibility proper requires under-pinning by other measures. Over and above the need for a good creditor policy on the part of the United States, it is considered that the gold reserves of the countries undertaking convertibility would need strengthening either out of American resources or out of those of the I.M.F., that the rules of the I.M.F. would need to be altered in order to allow a somewhat more liberal temporary use of its resources, and that G.A.T.T. would need to be revised in order to make it an instrument for general liberalisation of trade.

It should be added that, so far at any rate, it has been assumed that more flexible exchange rates—in the form not of variable parities but of a wider permissible range of rates on

either side of parity—would be needed to cushion the shock of convertibility and to give the monetary authorities more freedom of manoeuvre against speculative movements.

Dangers in Early Stages

One of the biggest problems of all is the question of the relationship between convertible and inconvertible currencies during any period in which some, but not all, of the European currencies might be convertible.

It is visualised that in the first stage there would be a group of convertible European currencies and at the same time a group (organised in a payments union something like the present E.P.U.) of inconvertible currencies. The natural fear is that the inconvertible countries would discriminate in their import controls against the convertible countries, deficit countries in order to restrict their payments in gold or its equivalent, and surplus countries in order to earn more gold or its equivalent. The tendency of the inconvertible deficit countries to limit their expenditure in the convertible countries to their earnings in those countries and the tendency of the convertible deficit countries to retaliate against any discriminatory measures by inconvertible surplus countries would soon —or so it might seem—reduce trade to a narrow bilateralism.

This is clearly a danger. How serious it might be is hard to assess without first making assumptions about which countries would be likely to go convertible and which would be likely to remain inconvertible. But there is an evident need for some agreement whereby liberalisation of trade within Europe would be maintained according to definite rules, thereby removing the risk of discrimination against convertible currencies during the period of partial convertibility. The nature of such an agreement and of the technical exchange arrangements between convertible and inconvertible currencies has provided much of the subject matter for the talks which the United Kingdom Government have been having with other European Governments and will no doubt be discussed further in the Council of the O.E.E.C.

U.S.A.'s Vital Role

Meanwhile, much of this planning and discussion remains a trifle academic. Britain, as well as most other European countries, will be reluctant to move any distance towards convertibility until there are signs of the United States adopting a good creditor policy. And of that, signs have been conspicuously lacking recently.

BEYOND EVEREST

Two major lessons must be learnt from the Everest expedition. First, costly achievement has to be sponsored and personal patronage, the traditional means, has become rare. This is a by-product of progressive taxation and cannot be avoided. But is it to be replaced by a vacuum or by some new form of patronage out of corporate funds, such as is given by the Arts Council or the London Transport Executive for creative art? Second, unless patronage can be found in respect-worthy sources—as British expeditions to Everest have always done—it can easily become tied to undesirable publicity ventures, as in the case of American child channel swimmers. What most distinguished the presentation of the Everest story was its complete freedom from commercial advertising or sensational press publicity. But such distinction is becoming distressingly rare.—*From Socialist Commentary, London, July* 1953.

Britain's Three Alternatives

Expand Exports — Mass Emigration — Grow Own Food

BY COLIN CLARK
(Director, Agricultural Economics Research Institute, Oxford)

WE in post-war Britain have had before us, in succession, three possibilities. None of them has been cheap. Each of them has called for a wholesale transformation of our social structure, which a fundamentally conservative nation, and a profoundly conservative Labour movement, have been unwilling to make.

(1) The first and best possibility would have been to obtain an increase in exports, not only far larger than that which has in fact been achieved, but also more sustained; to have built up an export trade which could not only pass the comparatively easy test of ability to expand in the booming markets of the first post-war years, but one which was so firmly based that it could permanently maintain itself, and go on expanding, in face of American, German and Japanese competition.

(2) The second possibility would have been really large-scale organised emigration. The world still possesses enormous areas of vacant land; and even if we confine ourselves to vacant lands within the British Commonwealth, we could, without any difficulty, have found enough and to spare to re-locate half the population of Great Britain.

(3) But the third possibility, if our exports are unable to be expanded, or our population reduced, is for a still large population to live predominantly upon food which can be produced in this island. It is feasible and it can be organised, and indeed it looks very much as if this is what we will come to. But it will mean that we will be permanently a considerably poorer and hungrier country than we need have been.

(1) A Real Export Drive

We are accustomed to thinking that our economic problems are unique, whereas in fact there are a number of countries much more dependent on export trade, relative to their national income, than we are. We might consider particularly Belgium and Norway or—to take the country most dependent in all the world upon export trade—Iceland, where an increasing population lives in substantial comfort in a country which has nothing but fish to export.

These countries seem to have both the tenacity and the adaptability which we so greatly lack—in peace time.

There was no doubting the intense sincerity of Cripps' export drive. But he too was often intensely conservative—in the literal sense of the word, of being unwilling to disturb things as they are.

* * *

Let us, he thought, have an export drive, but not if it means that we have to do without some of the social services to which we have become accustomed, or reduce taxation below the level which we now think proper, or let Italians work as coalminers, or ask people to move their

From Supplement to Financial Times, London, July 6, 1953

homes from one district to another, or allow obsolete industries to close down and new ones to grow in their place.

Cripps' heroic, and unfortunately successful, efforts to resuscitate the cotton industry illustrate the fundamental conservatism of his economic outlook.

No country which seriously regarded increased exports as a matter of life and death would continue to collect taxation at the rate of forty per cent of the national income, as both Cripps and Mr Butler have done. Nor would it tolerate all the other restrictions and rigidities of modern industrial life.

It can only be concluded that the country as a whole has decided, with labour and management, for once, in full agreement, that it does not really want increased exports, or at any rate, that they would not be worth all the efforts and sacrifices and changes which such a programme involves.

* * *

Well then, so Britain cannot do what smaller and humbler countries have set out to do. We cannot win by fair competition in the world market enough export trade to buy the imports which will keep us in the style to which we are accustomed, and to provide us with the necessary raw materials for our industries.

We must not, of course, under-rate the magnitude of the task. Not only do we have to provide for an increased population, at a higher standard of life, than that of 1938. Not only do we have to provide the food and raw materials needed by a full employment economy, as compared with the 10 per cent unemployed economy of the 1930's.

We have in addition to face the handicap of having to sell an increased, and still further increasing, quantity of exports for each unit of imports which we seek, in other words steadily deteriorating terms of trade.

* * *

The counter-movement which apparently developed in 1952 is purely transitory, and before long we shall have the old adverse terms of trade of 1951 restored, and indeed surpassed. In other words, we shall have to sell in a world in which there is a limited, if not a decreasing number of producers of food and raw materials, and with industrial competitors increasing both in number and in strength.

However, these are only hypothetical issues now, because we have apparently decided not to make a real attempt.

Perhaps one should not rule out the possibility that a belated attempt will be made and may even succeed. One can only say that it will be very much harder now than it would have been five or six years ago, before the pattern of post-war industry had been allowed to set and harden in an unsuitable mould, and before our competitors had succeeded in building up their strength so formidably.

(2) Emigration

The second alternative which might have been attempted was large-scale emigration. Sometimes, in the modern world, we fail to appreciate the degree to which our Victorian and Edwardian forebears relied upon emigration.

It was only up to the 1870's that Britain was 'the workshop of the world' without challenge; from that decade onwards German and American competition became ever more serious. And as the position of British industry was increasingly

challenged, the Englishman (and still more the Scotsman) of those days responded by emigration. Migration was going on at a national rate of 100,000 per annum in the decade 1910-11, rising to 200,000 in 1913.

The United States was the largest single recipient; but Canada, Australia, South Africa and New Zealand built up their economies with British migrants (and British capital) during those years.

* * *

Why do we not think in these terms today? It is not easy to answer. The United States, by suddenly blocking the flow of immigrants in 1921, set a shocking example to other countries. But the general cessation of international migration, like so many other ills of the modern world, was one of the innumerable evil consequences of the Great Depression.

Not only did it cause migration to cease; it built up, in the minds of the recipient countries, an innate hostility to the very idea of migration, which has taken years to overcome.

At this end, it is difficult to say how far the comparative indifference of the modern Englishman to the idea of emigration is a consequence of better social services, or of a fundamental change in outlook.

We may fairly speak of 'comparative indifference', but we must not exaggerate. A considerable amount of emigration, particularly to Canada and Australia, did take place in the first post-war years. With a greater degree of official encouragement at both ends, migration could have been much greater still. What was really needed was an organised policy of mass migration.

* * *

There are many areas, in Australia outstandingly, but also elsewhere, where entire new communities, comprising both towns and farmland, could be created at a stroke.

Large groups of people, coming from particular districts in this country, or voluntarily associated in other ways, could have formed new settlements and carried with them many of their friendships and traditions. Under these conditions, migration is much less hard, and much larger bodies of people, including old people and children, can be moved.

Once again, we should not say that the opportunity has passed. But it is rapidly passing.

(3) Growing our own Food

We are left, therefore, with the third alternative.

But why should we have to grow our own food?

Is not food now easier to get than it has been at any time since the war? Will we not be able to buy food from abroad with increasing ease?

Britain's chief food suppliers have been, on the one hand, Canada and the United States, who, generous though they have been in making loans and grants, have, in selling food, charged full world prices, and sold for dollars; and Australia and New Zealand, Ireland, Argentina and Denmark, who have been willing to sell for sterling and, on one pretext or another, have been put off with prices generally a good deal below world level.

The Ministry of Food—an amateurish organisation carrying international responsibilities which it is not competent to bear—may demonstrate that these prices are 'profitable' to the producers. The fact remains that with these prices farmers in the exporting countries

are less and less able to attract labour.

★ ★ ★

All these countries (except New Zealand) are showing a decrease in their agricultural labour force, far more rapid than can conceivably be offset by any possible rate of improvement of productivity per man. Moreover, in each of these countries, internal demand for farm products is increasing rapidly.

There can only be one conclusion. The exportable surpluses, which are at present traded by the Ministry of Food for a comparatively low price, will disappear. And things like this happen not gradually, but suddenly.

★ ★ ★

For some years, an exportable surplus will still be available, and we may be able, by hard bargaining, to get it at a fairly low price. Then, quite suddenly, one year there isn't any.

While it is understandable that these exporting countries should be losing agricultural labour, it comes as much more of a shock to realise that Britain herself is also losing it—over recent years, at an average rate of two per cent per annum.

This will offset the greater part, indeed, probably all, of the technical possibilities of increasing production per man. Output will now, in the long run, be about stationary. The complacency with which both the Ministry of Agriculture and the National Farmers' Union regard this loss of labour is simply incredible.

A large increase in British agricultural output, to take the place of the imports which will soon not be available, cannot be achieved without a great increase in agricultural labour. And this will not be made possible merely by giving the agricultural worker parity of wages and conditions with the industrial worker.

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To attract a sufficiency of young able-bodied men, in these modern times, to face the hard work and isolation of farm labour, we will have to offer wages very much higher than those offered to the industrial worker. This proposal is entirely repugnant to the Trade Union movement, which with its usual conservatism believes in maintaining what it regards as a 'proper parity' between rural and industrial wages.

And, to show that the fault is not all on one side, let us remind ourselves how hard business men and legislators still find it to reconcile themselves to the idea of farmers making large profits, and being freed from tax burdens. This also is necessary, as well as high wages.

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If rural wages and farm profits are really allowed to rise, there is a reasonable prospect that British agriculture will expand its output rapidly, and might eventually be able to replace the greater part of our imports. If the British farmer produced as much per acre as the Dutch, we might even have an exportable surplus of farm products. This may be regarded as an unattainable and indeed undesirable objective; and of course our soils are not quite the same as theirs.

But we should at any rate be able to go a considerable part of the way towards it. There is no doubt about the physical practicability of producing the greater part of our food requirements, if we had the necessary mental adaptability, and were willing to make the necessary financial and legislative changes.

Burden of Retirement

Nearly one-third of Britain's population may be State pensioners within thirty years

THE social security services as a whole (including assistance, old-age pensions, family allowances, and industrial injury benefits, as well as the main insurance scheme) made payments in 1952 amounting to no more than 5½ per cent of all personal incomes, against 4½ per cent in 1938—a remarkably low proportion in view of the scheme's wider coverage, the reduction of the women's pension age to sixty, and the increase in older pensioners.

It is not the current but the prospective cost of social security that is disquieting, and the cause for concern is the inexorably growing army of pensioners.

The true measure of the problem requires more than an estimate of the likely increase of old persons during the coming generation; it requires also an estimate of how many of them are likely to claim their pensions rather than continue at work.

The recent census showed that there are in Britain 116 non-earners (children, housewives, and retired old folk) for every 100 earners. If retirement habits do not change at all, this ratio would probably still hold good in 1977, rising to 120 in 1982.

More Retirement Probable

It is, however, likely that universal State pensions combined with increasing private superannuation will encourage more retirement. At the 1951 census only a fifth of men over seventy and a half of those aged 65-70 were still earning, while only 15 per cent of women aged 60-65, 10 per cent of those aged 65-70, and virtually no older women were earners. It would require only a moderate and entirely likely trend towards increased retirement—especially among the formerly uninsured classes—to produce a total of 8,900,000 retired men and women drawing State pensions twenty-five years hence, against 4,100,000 at present. If this should in fact happen, then there would be 127 non-earners for every 100 earners in 1977 and 131 in 1982.

Often in the nineteenth century the burden of dependency, so measured, has been markedly greater. But never before will nearly a third of all the nation's non-earners have been drawing State pensions, as may well be the case before 1980.

When the old folk of the future retire they must, of course, live on the community's resources in one way or another. But old folk living on their own savings (which are claims on the community's current resources), on private superannuation, or on the help of relatives are far less able to insist on enlarging their incomes at other people's expense than are State pensioners.

If it is possible that insurance pensioners will increase on average by 4½ per cent a year during the next quarter-century, it is more than possible that their claims on public resources will grow even more. For, looking only fifteen years ahead, over four voters out of ten, against under three in ten now, will be past

From 'The Cost of Security', The Times (Leader), June 25, 1953

pensionable age or within ten years of it.

National Income Growth

Can the growth of the national income keep pace with the growth in the needs—and demands—of the retired, and leave some margin for raising the standards of other sections of the community?

The answer is by no means beyond doubt. There is every reason for wanting fresh thought on retirement and retirement pensions. If there are 8,900,000 pensioners twenty-five years hence, nearly 6,000,000 of them will be women, including nearly 1,400,000 under the age of sixty-five. Was it a mistake to bring the pension age for women down to sixty?

Should the age for men be raised, or varied according to occupation? Cannot change of work, including a change to part-time work, be encouraged as an alternative to the total retirement (or pretence of it) that men believe the present system requires?

Should more emphasis be placed on assisting the retired according to financial need, and less on pensions paid regardless of means? These are some of the questions that call for dispassionate discussion, and next year's statutory review of the insurance scheme affords the opportunity.

(*Attention is also directed to 'Age and Regional Analysis of Employed Persons'. See page* 384—Ed., E.D.)

Current Cost of U.K. Social Services

The Central Statistical Office have prepared Tables giving figures of expenditure on social services by public authorities in Great Britain in the years 1949-50, 1950-51 and 1951-52.

The figures have been obtained by adding figures for England and Wales for years ended March 31 to figures for Scotland for years ended March 31 in the case of the central Government and the National Insurance Funds and May 15 in the case of local authorities.

The Table below shows consolidated current expenditure on social services, including expenses of administration, by all public authorities in Great Britain. Amounts recovered by contributions from the general public towards particular services have been deducted so that only the net expenditure by public authorities is shown.

The expenditure shown below, on contributory insurance schemes, comprises the expenditure of the National Insurance Fund and the National Insurance (Industrial Injuries) Fund, and includes retirement pensions (including pensions to widows over 60), other widows' benefits and guardians' allowances, sickness benefits, maternity benefits, death grants, unemployment benefits, and industrial injuries benefits. Pensions paid under the contributory insurance schemes have been included in full, no deduction being made for the revenue received from employers'

From Ministry of Labour Gazette, London, June 1953

and employees' contributions.

The figures given for industrial rehabilitation, training and employment of the disabled cover only expenditure by the central Government; expenditure by local authorities on this service is included with their expenditure on national assistance, as separate figures are not available.

The figures given for current expenditure on the national health service include superannuation contributions paid by local authorities and other bodies operating the service. Pensions paid for a service performed in the past, for example, to retired teachers and doctors, are not included as part of current costs of any of the services.

£ million

—	1940-50	1950-51	1951-52
Contributory insurance schemes ...	398.2	401.7	428.0
Extended unemployment benefit ...	5.5	5.2	4.1
Family allowances	62.6	63.6	65.0
War and other service pensions ...	81.8	79.1	77.5
Non-contributory old age pensions ...	27.0	25.0	23.8
National assistance	63.0	75.6	88.7
Industrial rehabilitation	1.7	2.8	3.4
Nutrition services	62.6	60.8	67.9
Education	283.0	298.6	344.5
Child care	13.5	17.0	18.9
National health service	403.7	435.9	448.8
Housing	67.2	70.6	74.1
Total expenditure	1,469.8	1,535.9	1,644.7

PERSONAL NOTE

As a retired teacher my income consists of a pension, an annuity, and the retirement pension under national insurance Acts. When I go back into school as a specialist with backward pupils I lose these payments, and I have to pay nearly £2 weekly in income tax, plus the cost of an insurance stamp and fares. When working I am £1 18s. 8d. a week better off than when not working. Is it worth it? I have to balance the real joys of employment plus the social value of doing a useful job against tax and statutory disincentives. Two posts for the autumn term have been offered and I am still pondering what to do. There must be hundreds of potentially useful men and women similarly placed.—D. Glickman, Southport.

Letter, The Times, July 7, 1953

CORRECTION

We regret that the first article in the July Number—Impact of Taxation on Prices—was ascribed to 'Sir Henry Luke' instead of to 'Sir Henry Clay'. The fact of Sir Henry Clay's authorship was however indicated in the introductory paragraph.—Editor, E.D.

How British Life Assurance Funds Are Administered

An interim report made by a Committee set up by the Ordinary and Industrial Life Assurance makes the following points:

(1) The 'Life' Funds (Ordinary and Industrial) of Offices in the United Kingdom amount to over £3,000 millions. Life Assurance is the biggest single source of personal savings in the country today.

(2) The Life Funds are increasing steadily, partly because of the rapid growth of pension scheme business, and the present rate of growth is about £160,000,000 a year. (Ordinary Assurance nearly £120,000,000 and Industrial Assurance £40,000,000.)

(3) While the investment of these vast sums throws a heavy responsibility on the Life Offices, there is free and healthy competition between them—in the investment field just as much as in other business matters.

As to the control of industry through the power of investment, the last thing that any office in the investment of its policy-holders' funds would seek is to control industrial or commercial companies. This is clear if for no other reason than that the offices have not the type of organisation to contemplate control of such companies.

'Nominee' shareholdings are practically non-existent—the small number of offices which use nominees do so mainly for administrative convenience and not through any desire for concealment. In the case of some Dominion offices, for example, there are no arrangements for the sealing of transfers in this country.

(4) Over £360m. (11½ per cent of total assets) of Life Office funds are represented by equities, as against about £50m. (5 per cent) in the late 1920's.

(5) The provision of risk capital for industry is not a practice, however, which can be extended without limit. It is for the individual office to decide in the light of its own liabilities, what proportion of its investments should be in equity shares.

(6) The national interest is also served by:

(i) the support given by the Life Offices to Government stocks—including those of the national boards guaranteed by the Government. During the last war the total invested in Government stocks was well over 40 per cent of total assets. About 35 per cent of the offices' present total assets are held in such securities and the percentage is very much higher than obtained in earlier pre-war years. For example, in 1937 21 per cent of assets were held in Government stock and in 1913 only one per cent!

(ii) the loans which the Life Offices make to encourage home ownership. Over £200,000,000 of house purchase loans were outstanding at the end of 1952—quite apart from deposits with, advances to, and shares in building societies, housing associations, etc. amounting to a further £25,000,000.

Decontrol of Wheat and Flour Puts British Millers in Dilemma

BY A. A. HOOKER

Freedom for the miller means taking over Government stocks. If the Government should insist upon the current high price, it might reasonably underwrite the millers' risk.

THE proposed decontrol of wheat and flour at this juncture must present a difficult problem to all businesses which are normally forced to carry stocks. The difficulty is caused by the fact that the current, so-called international price of wheat bears no relation to the statistical position of that commodity.

Despite the fact that the world's exportable surplus this autumn promises to be the largest in history, the price is being held, by the Government monopolies in exporting countries, at an artificially high level.

The United States Government has been buying up stocks of its own farm produce for some time and this stock-pile includes some 500,000,000 bushels of wheat (enough to supply all the U.K. requirements for two years). The new administration is fully alive to the risks of continuing this policy in the event of another favourable Northern Hemisphere crop this season, and is considering plans for the disposal of these farm surpluses for export to countries against payment in local currencies. Such a proposal would increase the competitive advantage of American wheat over Canadian.

Canada produced a record crop last season and can be expected to have a record carry-over into the new season. It is quite possible that the Canadian Wheat Board may also have an embarrassing surplus to deal with this autumn. In 1928-9 the Canadian Wheat Pool was presented with a rather similar problem and the decade which followed that hold-up is still remembered by some of us.

The Southern Hemisphere has no stock-pile, and it is not likely that either Australia or Argentina will wish to create one. They can, therefore, be expected to meet the market as may be necessary to export their surpluses.

Millers' Misgivings

It is with this picture of the market before them that the millers of Britain are being asked to resume control of their mills and take over the Government holdings of wheat. It is hardly surprising that the chairmen of some of the big milling companies have expressed apprehension at the prospect.

The millers have not been allowed to benefit from the five-fold rise in the value of their stocks during the past fourteen years, and are now being asked to take the whole risk of the probable fall.

In these circumstances, if the Government insists on handing over its wheat holding at the current high price, it does seem that the millers are entitled to ask the Government to provide some form of insurance against a drastic fall in the price level. Neither Lloyds underwriters nor, in fact, any commercial business could afford to take on such a risk. It is respectfully suggested, therefore,

From Corn Trade News, Liverpool, June 19, 1953

that the Government cannot escape its responsibility and must, in equity, underwrite this risk.

There are, I suggest, two ways in which this can be done. It might be tackled on the lines of the Cotton Scheme or it might be approached through the medium of the Wheat 'Futures' hedging markets. In my view the latter is more appropriate and would be of lasting benefit to the country.

'Hedging' Markets

The only wheat hedging market open today is in Chicago, and that market is an entirely domestic affair which would be quite useless for hedging international wheat. Its relation to the world price depends on an arbitrary export subsidy which may be fifty cents a bushel today and forty cents tomorrow. The Winnipeg wheat hedging market is closed and so are Liverpool and London. We have no control over Winnipeg, so we are left with Liverpool and London.

In a free economy with all the market machinery functioning, a miller, who had to carry stocks contrary to his view of the market, would hedge his market risk by selling futures. The buying of the actual wheat and the sale of futures would balance because the exporter or merchant would be selling actual and buying futures. The operation would, therefore, cause no change in the price level.

Now, if the Liverpool and London futures markets were reopened in order to provide the miller with a medium of insurance, the miller would be asked to take over stocks from a Government, and sell his futures into a vacuum. His buying would not cause one ripple on the market, but his attempt to sell the equivalent in futures would knock the market silly.

A Solution

In my view there is only one way in which this dilemma can be resolved, and that is by the Government putting the miller back into business fully hedged.

If the Government will sell all its wheat to millers on 'premium contracts', that is to say, for every load of wheat the Government sells, it agrees to take a load of futures in exchange; then the millers' market position will be re-established and they can carry on trading without assuming, what must appear to them, a quite unreasonable gamble.

This method of hand-over would achieve a further important advantage to the trade, by starting off these 'futures' markets with a large open interest before the gong was struck, and the establishment of two broad wheat 'futures' markets in the U.K. would earn invisible exports for years to come.

It may be argued that if the price level did fall the Government would lose money on its holding of futures, and it would be much better politics to saddle the millers with the loss (if possible), but surely this argument is rather too specious.

Since there are no facilities for hedging outside this country, it follows that, if the price level of wheat falls, a loss on stocks must be borne by someone within the U.K., either the miller, the consumer or the taxpayer. Since a fall in the price level will mean a smaller subsidy to the baker for the National loaf and an improvement in the country's balance of trade, it is, I submit, not unreasonable for the loss on stocks to be at least partially accepted by the taxpayer.

F.B.I. says

Britain's Roads are Neglected

DELAYS and high costs in the transportation of goods by road, the direct result of ever-increasing congestion, have become an extreme example of low productivity, affecting our ability to compete and wasting manpower. Large quantities of imported motor fuel are being burnt unnecessarily and the additional wear and tear on vehicles is considerable.

In 1950 the cost of transporting goods by road amounted to £540m., or 70 per cent of the total expenditure on goods transport by road and rail combined.

In the same year the expenditure on passenger travel by road, which also affects industry to a considerable extent, amounted to £640m., or 84 per cent of the total.

The number of motor vehicles licensed rose from 3,084,896 in 1939 to 4,790,800 in 1952, an increase of 55 per cent.

In the same period, however, the total annual expenditure on work on the roads only increased from £64,627,000 to about £80m.: the corresponding figures for the central Government's own share of this expenditure were £20,599,215 and £29,464,000.

In view of the fact that costs had meanwhile risen by two or three times, these figures represent a steady decrease in the amount of work actually carried out.

The Ministry of Transport has admitted that the money available in the fiscal year 1952-53 *only sufficed to carry out maintenance at a level of* 75 *per cent of pre-war programmes; and that there was no expenditure on new road schemes, apart from certain grants in connection with new towns, the removal of accident 'black spots', and one or two projects essential to communications.*

Between 1939 and 1951, indeed, the mileage of roads of all classes only increased from 180,527 to 184,837, or by 2.4 per cent; and the mileage of trunk, Class I and Class II roads, on which so much long-distance traffic is carried, from 45,179 to 45,479, or by less than one per cent. Expenditure on extensions to roads other than trunk roads, which amounted to £3,609,000 in 1939, averaged only £800,000 a year for the five years 1946-50 inclusive.

On trunk roads themselves there was an expenditure in 1939, over and above the cost of maintenance, of £1,504,000; but the average annual expenditure for the five years 1946-50 was only £970,000. These sums included the cost of improvements as well as of new construction.

Since the war there have been great industrial developments with corresponding increases in the provision of power supply, gas, sewage facilities, water, railway sidings and even docks.

These changes, however, have been accompanied by virtually no corresponding provisions for the extra road traffic to which they have inevitably given birth.

From Memorandum to Chancellor of Exchequer from Federation of British Industries, July 4, 1953

Benelux at the Crossroads

BY DR J. R. M. VAN DEN BRINK
Formerly Netherlands Minister of Economic Affairs

WE have now reached a crossing of the ways. One road leads to a real economic union, by which the economies of the partners, now independent, may be fused into a new economic unit with its own objectives and its own executive organs. To take the other road would mean to prolong the present situation, in which the Benelux countries are continuing to put their own national economic objectives first, and to follow economic policies which run parallel only when they happen to do so.

This state of affairs cannot last. By entering into the Customs Agreement and the Pre-Union Agreement the three countries have, as it were, taken an advance instalment of the real economic union which they intend to bring about. They have established a large 'common market', without creating the instruments which are needed to make this market work properly in changing circumstances.

This means that difficulties will constantly recur such as those with which we are now troubled; and there is little purpose in continually reproaching each other over this. It seems to me that the only correct course is either to create the executive organs which are needed in Benelux in order to make the common market work, or else to change over to less strict forms of co-operation.

A common market which offers no certainty that it will last is of little value to our economies. The Benelux market has meaning as regards the extension of the three countries' productive systems only if it can be regarded as a real domestic market in the full sense of that term.

At the outset the real nature of this matter was only superficially recognised. It was thought that the levelling of the conditions affecting competition, through standardisation of excise duties, turnover tax and so forth, would provide an adequate basis on which to proceed to the setting up of the Union. People were too inclined to neglect the fact that a much greater positive effort is required, in the sense of conducting a common financial and economic policy. In particular one came to see during the Conference at The Hague in March, 1949, and at the Ministerial Conference at Ostend in July, 1950, that it is necessary to establish certainty that there will be a common front towards outside parties, as well as co-ordination of the internal policy.

Korea Creates Confusion

At Ostend for instance the important decision was taken that as from January 1951 trade agreements common to the parties would be concluded. In 1951 however, in spite of almost constant official consultation, the parties did not follow this road which might have led to true economic union. The trouble was that the war in Korea had broken out shortly before the Ostend Conference, and this drove the Benelux countries further apart once more. The psychological and political

From Quarterly Review, Amsterdamsche Bank-Incasso Bank, Amsterdam, First Quarter, 1953

ground was cut from under the feet of those who were striving to build the Union in the material sense. The full attention of both Governments was taken up by the disorganising effect which Korea produced, in quite different ways, on their respective economies.

Thus the Ministerial Conference which was held at Goes in July 1951 opened up no immediate prospects of further progress.

In the second half of 1951 however the financial and economic position of the Netherlands began gradually to improve. The trough of the wave had been passed. There was a definite change in the trend of economic activity in the world, and more particularly in that of world market prices; and the measures which had been taken by the Government that took office in the Netherlands in March of that year were beginning to produce their effect. During the early months of 1952 this rising trend continued. The Netherlands Government thought that then was the moment to take the initiative in the matter of Benelux policy.

Netherlands Case

In a note of February 18, 1952, to the Belgian and Luxembourg Governments, a statement was given of the Netherlands' view in regard to the course which ought to be taken. This note was intended as a preliminary to the holding of a Ministerial Conference, and it contained far-reaching proposals. Since this note was not published at the time, it seems desirable to dwell for a moment on this note, and on those which were received in reply.

The Netherlands Government view was stated as follows:

'One of the hall-marks of a true economic union is complete freedom in the movement and exchange of persons, goods, services and capital within the joint community. The establishment of, or agreement on, such freedom of movement and exchange is however not sufficient to ensure the existence of an economic union as such. If the internal policies of the participating countries are directed towards different objects, or at least are not directed to one common object, so that a divergence of economic, financial or social policies occurs or continues in such a way as to prejudice the conditions required for a healthy competition between the participants, the resulting strains within each country will always tend to be resolved by means of interference with the freedom of trade. The lasting continuance of an economic union therefore implies as a first condition that co-ordination between the economic financial and social policies of the partners shall be sufficiently ensured with the effect that limitations of the freedom of transactions between their countries become and remain superfluous.

'It naturally follows that as within an economic union, all economic strains that arise produce direct effects on the whole territory of the Union, it is a basic condition not only that internal policy shall be coordinated in a manner which takes conscious account of the objective and conforms to that objective, without necessarily excluding certain divergences, but also that there shall be in all strictness a common policy in external economic and monetary affairs. Her Majesty's Government therefore considers it impracticable for countries which wish to form an economic union to persist in a desire to continue the conduct of separate economic policies in their foreign relations. Any divergences in external economic and monetary policies will cause immediate distortion of the economic and financial relationships between the countries which form the Union.'

The Netherlands Government declared that it was ready to draw practical conclusions from what is set forth above. It was for instance proposed that steps should be taken to establish a common Benelux quota in relation to the countries adhering to the European Payments Union; and the Netherlands Government further stated that it was ready for the establishment of a common official body for the purpose of conducting foreign trade and exchange policy.

One reason why the Netherlands Government thought a unified trade and exchange policy necessary was that, as a consequence of such policy, each of the participants could undertake an obligation to accept, in settlement of balances between the partners, the foreign currencies which were obtained from transactions with outside countries. That would afford an assurance that, if each of the partners maintained equilibrium in its balance of payments, this would automatically enable it to meet its payment obligations towards the other partner. Inter-convertibility of the guilder and the Belgian franc would thus become independent of whether or not there was in existence an international payments mechanism such as the European Payments Union.

Second Proposal

In order to make sure that guidance would be given to the common official body, a second proposal of far-reaching import was made:

'It is of course necessary that there shall also be unity of view in regard to the official bodies, the composition of which will be an important factor in the reaching of such agreement. In this connection the first essential is that the three Governments, and the official bodies representing their countries, shall be and remain under an obligation to direct the conduct of their policies primarily to serving the joint economic interest, as a synthesis of the interests of the three countries separately. However, during the period which will be required for attaining true economic union, the organisation needed for the conduct of policy with that object in view can be of a less formal kind, and less formal in structure, than when matters reach a more definite stage. In view of this it appears to Her Majesty's Government that in the first place a Committee of Ministers ought to be formed. It is in such a Committee of Ministers that the weighing of the national interests against the common interests should be done. In regard to trade policy and the related foreign exchange policy this Committee of Ministers should be exclusively competent. The policy formed by unanimous agreement within the Committee of Ministers should be binding on the three countries and their Governments. In the view of Her Majesty's Government this plan further requires that, for preparing and executing measures, there shall be a joint official body to serve the purpose of general co-ordination.'

By making these proposals the Netherlands Government were declaring themselves to be essentially prepared to accept supra-national authorities to join in the task of organising economic union. True, they stipulated that the decisions of the Committee of Ministers must be unanimous; but the decisive task of that Committee would consist in drawing up the instructions for the joint official body in matters of foreign trade and exchange policy. The time-table for negotiations with foreign countries would always automatically force the Committee to reach unanimity in drawing up those instructions.

Belgian Answer Disappoints

The Belgian answering note, which was received on April 11, 1952, was a disappointment. The Belgian Government attached prime importance to the need for co-ordinating internal policies, but provisionally rejected the unification of trade and exchange policy. Among other things, they said:

'The experience which has been gathered since the signing of the Ostend Protocol goes to show that the pursuit of the main object of Economic Union, in the shape of the maintenance and even the extension of free transactions between the partner countries, does not necessarily or in all circumstances imply a strictly common policy in foreign matters. Apart from this, the conclusion of joint payments agreements would not solve the question of how to effect bilateral settlement of the ultimate balance between the Benelux partners. Such settlement is dependent on the overall equilibrium of the balance of payments of each of the partners, and also on the extent to which the foreign

currencies are convertible. There is no reason to doubt that the internal economic and financial measures which the Netherlands Government have taken since the beginning of 1951 have substantially contributed to producing a greater degree of equilibrium in the trade with foreign countries, and have in particular contributed towards the great reduction in the deficit which had arisen in the bilateral relations between the Netherlands and the Belgian-Luxemburg Economic Union. From this it may be concluded that it will be possible, by means of a co-ordination of internal economic and financial policies, to keep the deficit between the Benelux partners within normal limits. Apart from this, the Belgian Government does not think it possible at the present time to lay on one partner the obligation to accept currencies of outside countries which might be in the possession of the other partner. The Belgian Government also sees no advantage in a common quota with the E.P.U. This question however needs careful investigation, and the Belgian Government would be grateful if the Netherlands Government would explain more fully their view on this point.

'The Belgian Government further consider that the co-ordination of the internal policy of both countries in the most important monetary and financial matters must lead to the free circulation of capital. In the Belgian Government's opinion, such freedom could facilitate the integration of the two economies, as well as the establishment of bilateral monetary equilibrium between them.

'In order to obviate any excessive difference in the conditions affecting competitive power, it is also indispensable that greater efforts shall be made than have been made hitherto to bring about agreement between prices and wages in the two countries.'

On April 16 the answering Luxembourg note was received. It did not differ appreciably from the Belgian reply. A supplementary Belgian note stated that it had not been the Belgian Government's intention to throw doubt on the need for 'unification of the commercial policies in relation to foreign countries'. The Netherlands Government felt, as the result of this exchange of notes, that they afforded no ground for convening a Conference of Ministers, such as could take important decisions. A few months later the change of Government in the Netherlands took place.

Present Situation

It seems to me that the threads of Benelux policy, with respect to the decisive problems, ought now to be taken up again at the point at which they were dropped a year ago: the more so, since in the meantime equality between the partners has been attained. For, in spite of the existing difficulties and the friction in various forms, it can be said that the basis for taking important decisions is there, provided that the parties really desire the Union with all its consequences, not only in theory but also in practice. The effect of the decisions will have to be that the co-ordination of internal policies, and the unification of foreign policies in matters of finance and economies, shall be ensured. For this purpose it is necessary among other things that appropriate Benelux executive bodies shall be formed not only in the administrative and parliamentary spheres, but also, if possible, among representatives of the private sectors of the countries' economies.

The European Coal and Steel Community, with a total output worth about $5,800 million per annum, has executive organs and powers which can ensure the proper working of the common market. In Benelux countries in which the total output after deduction of coal and steel is worth about $11,800 million, or nearly twice as much as that of the European Coal and Steel Community, there is not a single executive organ with the power to take a decision.

Encouraging Progress Report on Europe's Coal and Steel Community

BY MICHAEL L. HOFFMAN

THROUGHOUT Italy, France, Belgium, the Netherlands, West Germany and Luxembourg, the industries whose products form the foundation of modern industrial society, coal, iron and steel, are in a state of ferment.

This revolution has three parts: technical, market structure and social. The technical revolution is well advanced; the transformation of the market structure has just begun; and the social revolution has so far only broken through the surface.

The plan for creating a common six-nation market, free of Government and private restrictions on competition among producers, was embodied in a treaty that became effective upon the assumption of power by the High Authority on August 10, 1952.

The High Authority in Luxembourg replaces national governments as the source of such governmental regulation and control as may eventually remain in the Community.

On February 10, 1953, the common market was proclaimed for coal, iron ore and scrap metal. On May 1 the common market was officially established for steel in its crude and semi-finished forms.

Castings, tubes, rails and other fabricated forms of steel are not covered by the treaty. Italian steel and Belgian coal are kept out of the common market for the time being by the terms of the treaty itself. Five years are given before all national protection is removed. But even where no such transition period is provided, the High Authority has refrained from knocking down all the barriers at once.

France still subsidises Ruhr coal for its cokeries to keep the price of coke to French iron-makers down to the level charged by the nationalised French coal industry—a level many feel is too low. This is a form of national subsidy that should ultimately disappear.

Anomalies

Elsewhere in the Community anomalies arise. The Germans feel that French national taxes of about 12 per cent ought to be borne by French steel sold in Germany instead of the comparable German tax of only about four per cent. The High Authority did not agree with the Germans on this point. But the difficulty of running a common market with varying national tax, wage and social security structures will persist.

'We all suspect that the common market will work for everything that favours our competitors and will not work at all for things that favour us', one Italian steel man said. Everywhere one hears that 'we are playing the game but those fellows in Germany (or France, or Italy, or Belgium or the Netherlands, or Luxembourg, depending on the speaker) are cheating and the High Authority ought to do something about it'.

The first effect of the opening of a

From New York Times, June 23, 24, 25, 1953

common market in steel was almost indescribable confusion in the marketing of steel. This has already resulted in a marked drop in output.

For several weeks after the common market was officially established, on May 1, 1953, not a single order was placed for steel in Western Europe. While the producers, as a result of close study of the treaty and consultations with the High Authority and its experts, were fairly well aware of the changes involved, consumers were taken completely by surprise.

To appreciate a little of what is involved one may take the case of France. For decades French steel buyers, the automobile companies, the canners, the railways, foundries and others, had paid a price for steel delivered at Thionville in Lorraine plus freight to their respective plants.

A plant in Paris paid less for coils of hot rolled steel than a plant in Bordeaux, a plant in Nancy less than one in Paris. Thionville was the only 'basing point' for steel in all of France. Suddenly, on May 1, steel buyers discovered that they had a choice of twelve basing points scattered through the four main producing regions of France—the East, the North, Normandy, and the region of the Loire Valley.

Pricing System Upset

Furthermore the relative prices of different kinds of steel had been revised completely, the old French system no longer corresponding to modern cost and product relationships. To add to the consumer's bewilderment was the discovery that a Belgian or German or Dutch steel company, with whom he had never before done business because of customs barriers, might now deliver steel cheaper than his customary French supplier.

Industries that had enjoyed a form of protection merely by virtue of being situated nearer than competitors to Thionville suddenly discovered that concerns on the other side of France could get steel cheaper than they. To meet the competition of Belgian or Dutch suppliers, who can deliver steel by cheap water transport to the west coast of France, French steel mills are authorised to absorb transportation costs for delivery from Lorraine to the West.

* * *

The establishment of a common market for coal and steel in the six major producing countries of Western Europe creates two outstanding problems of regional economic adjustment. These are in the Italian steel industry and in the Belgian coal industry.

Both are turning out to be less intractable than was anticipated.

Belgium's Coal Problems

The Belgian coal problem is compounded of two factors. The technical factor is that Belgian coal lies extremely deep in thin and badly broken up seams. But there is a lot of coal to be had and it is of good quality.

The economic factor is that very little capital was put into Belgian mines between the end of World War I and the end of World War II. What investment there was went into the new Campine district in the north.

The Belgian industry, as a result, is, on the whole, terribly backward so far as surface installations and the handling of coal after cutting are concerned. This backwardness can be overcome by investing in new hoists, new power plants and new coal washing equipment and by

centralising the processing of coal for the market. One can see it being overcome both in the modern mines of the Campine and the old mines of the Borinage that are in process of modernisation.

In one minefield four pits with modern equipment will soon be producing more coal of better quality than eight pits were yielding a few years ago. At the same time productivity by each miner has been brought up to the level of the Ruhr in the modernised mines and is still rising. A veritable craze for raising productivity and eliminating waste has swept the mining communities and it is getting good worker co-operation.

None of this would suffice to make Belgian coal competitive if Belgian wages remained as high relative to wages in the Ruhr and France as they were in 1952 when the Coal and Steel Community started. The difference is indicated by the figures of labour cost a ton (in Belgian francs) of 237 for Belgium, 197 for France, and 180 for West Germany. This disparity has already been reduced and the corresponding figures are now 336 for Belgium, 349 for France and 261 for West Germany. (The Belgian franc is valued at about two cents.)

Belgian coal managers agree that the present relative wage pattern makes the removal of tariff protection to be enjoyed by the Belgian mines for another five years, under the terms of the treaty, look much less frightening when the steady improvement in costs resulting from modernisation is taken into account.

The Italian steel industry was created behind a wall of protection without which it is unlikely that Italy would have had any steel industry at all. Like the Belgian coal industry, Italian steel gets a gradually diminishing protection under the Coal and Steel Community treaty for five years. Then it must stand on its own feet.

Hardly anybody in the Community except the Italians and some American engineers working in Europe thinks it can be done. Thinking in terms of the industry they grew up in, European steel makers commonly observe that Italy is trying to make steel without either of the essential ingredients on hand, namely, coal and iron.

This viewpoint overlooks the fact that today's steel industry is not the industry that today's plant managers and owners grew up in. Processes are being carried out on an industrial scale under which steel can be made without any coke and thus without any coal—indeed without any blast furnace—by preparing iron-bearing ores or pyrites for charging directly into steel furnaces. And Italy already has vast quantities of natural gas in her main industrial region, the Milan-Turin-Genoa triangle (gas will reach Genoa this year). She has pyrites in central Italy that can replace iron ore to a large extent.

Revolution Must Advance

Whatever the Marshall Plan may or may not have accomplished, it made possible this technical revolution in the European steel industry.

There is a widespread conviction among leaders of the Western European coal and steel industries that the effort to create a common market covering 155,000,000 consumers in Western Europe cannot stop at coal, iron ore, scrap and steel. The economic revolution in which they are taking part must, they feel, either go forward or backward—it cannot stand still.

Canada's Huge Consumer Market

In terms of people the Canadian market is relatively small. But in terms of national income it is large and in terms of national income *per capita* second only to the United States, whose *per capita* national income is perhaps two-fifths larger.

The Canadian market is also a fast-growing market. From 1939 to 1952 the population increased by 25 per cent compared with 20 per cent in the United States, and the real national income more than doubled—a somewhat larger increase than across the border.

Luxurious Standards

There are many general indications of the high degree of industrialisation and the associated high standard of living. *Per capita* steel consumption is the second highest in the world—793 ingot lbs. annually as compared with 1,343 lbs. in the United States, 715 in Sweden and 642 in the United Kingdom. Similarly with electric energy, Canada's *per capita* production of 4,100 kilowatt hours annually is second only to Norway's 5,400 kilowatt hours and substantially exceeds the United States' 2,800. Automobile registrations in 1951 numbered 20 for every 100 persons in the population, a ratio surpassed only by the U.S. figure of 33 for every 100 persons; and telephones numbered 22 for every 100 of the population, a ratio exceeded only by the United States with 29 and Sweden with 25.

Available data from many sources indicate that here is a population which has a substantial proportion

CANADA'S POSITION AMONG THE LEADING TRADING COUNTRIES OF THE WORLD

(Data for 1952 expressed in U.S. dollars)

IMPORTS (c.i.f.)		EXPORTS (f.o.b.)		TOTAL TRADE PER CAPITA	
Country	$ millions	Country	$ millions	Country	$
World Total§	79,543	World Total§	73,479		
1. United States	11,632	1. United States	15,164	1. New Zealand	705
2. United Kingdom	9,733	2. United Kingdom	7,540	2. Canada	635
3. Canada	4,458	3. Canada	4,729	3. Hong Kong	590
4. France	4,431	4. Western Germany	3,990	4. Belgium†	535
5. Western Germany	3,818	5. France	3,896	5. Switzerland	475
6. Belgium†	2,424	6. Belgium†	2,426	6. Sweden	460
7. Italy	2,313	7. Netherlands	2,130	7. Venezuela	450
8. Netherlands	2,251	8. Australia	1,691	8. Norway	435
9. Japan	2,027	9. Sweden	1,563	9. Australia	425
10. Brazil	2,010	10. Venezuela	1,546	10. Netherlands	420
11. Australia	1,984	11. Brazil	1,409	11. Denmark	420
12. Sweden	1,730	12. Italy	1,383	12. Trinidad & Tobago	415
13. India	1,661	13. India	1,296	13. Malaya‡	385
14. South Africa	1,294	14. Malaya‡	1,280	14. Finland	370
15. Malaya‡	1,265	15. Japan	1,274	15. United Kingdom	340

§Exclusive of China, U.S.S.R., and those countries of Eastern Europe not reporting trade currently. †Includes Luxembourg. ‡Includes Singapore.

From Monthly Review, Bank of Nova Scotia, Toronto, May 1953

of its income available for spending on items above and beyond the basic necessities. For instance, in the survey made for the consumer price index, which is based on the expenditures of moderate-income families and is representative of the spending patterns of three-quarters of the medium-sized families in Canadian cities, the use of refrigerators, washing machines, vacuum cleaners, telephones and automobiles was found to be so wide-spread that allowances for their cost were included in the index.

The 1951 census showed that, of the 3.4 million occupied dwellings in Canada, 92 per cent had radios, 72 per cent had powered washing machines, 59 per cent had telephones, 41 per cent had electric vacuum cleaners and 42 per cent had passenger automobiles. The improvement in the standard of living over the decade since the preceding census is made clear by the fact that in 1941 less than 80 per cent of the homes had radios, only about 40 per cent telephones and less than 25 per cent electric vacuum cleaners.

Rural Amenities

The statistics in the preceding paragraph are of course general averages for both urban and rural Canada. The percentages are naturally higher in urban communities which now embrace some 62 per cent of the Canadian population, a surprisingly high proportion in view of the vast extent of the country and its big agricultural output. But the proportion of homes supplied with the various household conveniences is quite high, too, in some rural areas, especially in Ontario. Indeed, the widespread use of the automobile and the rapid extension of rural electrification means that in many rural communities, particularly in the highly specialised commercial farming areas, tastes and standards do not differ much from those in the cities.

Tripled Per Capita Spending

The growth of the consumer market is perhaps best indicated by the statistics of personal expenditure on consumer goods and services as estimated in the national accounts. Between 1939 and 1952, personal expenditures rose from less than $4,000 millions to over $14,000 millions. Allowing for price changes, the total nearly doubled. Some of this big increase reflects the growth in population. High birth rates, a substantial flow of immigration since the war and the addition of Newfoundland to confederation increased the population between 1939 and 1952, as has been noted, by 25 per cent. But higher incomes have also contributed to the growth in personal spending. On a *per capita* basis personal expenditure on consumer goods and services very nearly tripled in dollar terms and in real terms was some 50 per cent higher.

The figures of personal expenditures also throw a good deal of light on the nature of the Canadian consumer market. A breakdown for 1952 is not yet available, but in 1951, of the more than $13,000 millons spent by Canadian consumers, 26 per cent was spent on food, 11 per cent on clothing and personal furnishings, 23 per cent on other non-durable commodities, and 10 per cent on durable goods (with the remaining 30 per cent going for services of one kind and another).

One feature of this distribution is the relatively modest share of the total accounted for by food, even though Canadians are now eating better than ever before and food

prices have been high in relation to those of other commodities.

Another feature is the substantial amount spent on durable goods, including automobiles—$1,300 millions or 10 per cent of the total as against less than $300 millions, or 7½ per cent of the total in 1939. This big increase is, of course, a direct reflection of the improved level of real incomes.

The brisk demand for household durables also mirrors the high rate of family formation that has been characteristic of post-war Canada: between the censuses of 1941 and 1951 the number of families increased from 2.5 million to 3.3 million, or about one-third, as against a general population increase in the same period of 22 per cent.

Canada's Railways Seek Freight-Rates Freedom

BY W. A. MATHER
President, C.P.R.

CANADA's dependence upon export markets is, happily, somewhat less marked than in the thirties because of the notable change in population trends since the end of World War II. During the last few years the number of immigrants entering Canada greatly outnumber the individuals leaving for the United States. This change in long-term trend indicates a growing confidence in the opportunity for individual initiative afforded by the expanding economy of today. This expansion is creating a new railway problem.

Early railway construction was, in large part, to link together our sparsely settled and widely separated territories. The railways were built far in advance of traffic needs; they opened up new territory and were dependent upon immigration and the development of large unsettled areas for their traffic. In some areas traffic was slow to develop, and therein was the root of many of the railway problems of earlier years. Now railway capacity has in large measure been used up. In fact, many facilities are being severely taxed, and an increase in capacity is required. In essence, the problem now is for the railways to keep pace with Canada.

Growth of Freight

The increasing service required of the railways is revealed by the growth in the volume of freight transportation per capita. In the early years of the century, when there were but six million people in this country, freight service rendered by the railways was equivalent to the transportation of 2,000 tons of freight a distance of one mile for each man, woman and child. Today, the railways, serving a population of nearly 15 million, are hauling the equivalent of 4,000 tons of freight a distance of one mile for each individual. In the United States, where competition is much more intensive, there has been a similar long-term increase in railway traffic per capita.

The increase in freight traffic in recent years has indeed been striking. In 1952, Canadian Pacific handled 29,000 million revenue ton miles of

From Address, Montreal, May 6, 1953

freight, a volume greater than ever before. This was an increase of 8 per cent over 1951, of 6 per cent over the wartime peak of 1944, and of 60 per cent over the inter-war peak of 1928.

Productivity Improvements

While the volume of traffic has increased, the man hours to handle it have decreased. In 1928 there was an average of three man hours of labour per thousand gross ton miles as compared with two hours in 1952, a decrease of one third. The number of cars and locomotives required has also decreased. The all-time peak load of traffic carried in 1952 was handled with 12,700 fewer cars and 360 fewer locomotives of greater capacity than were available for the much smaller volume of traffic in 1928.

Operating statistics point up many of the gains in efficiency that have been made. The tonnage per car-mile rose from 27.9 tons in 1928 to 33.2 tons in 1952. During the same period the average daily mileage made by all freight cars increased from 34.9 miles to 48.4 miles. Locomotive and train performance has shown quite marked improvement. Measured in gross ton miles per freight train hour, the work performed in 1952 was 50 per cent greater than in 1952.

Not all of the progress shows up in statistical averages, however. Improved services to shippers such, for example, as a scheduled trans-continental freight service providing fourth-morning delivery from Toronto to Calgary, and fifth-morning delivery from Toronto to Vancouver which commenced March 3 of this year, have been introduced.

Since the end of World War II, over $345 million has been thus spent on technological improvements, and further outlays of $475 million will be required during the next five years.

To obtain the new capital necessary the investor must be offered a fair prospect of getting a reasonable return on his investment. In my opinion, this can be done only if the railways are given reasonable managerial freedom in the pricing of their services.

Freight Rates Structure

The present freight rate structure has evolved from one originally designed to serve a very different economy from that of today. The historic pattern, established at a time when railways were the only effective means of overland transportation, was intended to encourage the opening up of new land areas and to develop the commerce of a young nation. It is therefore understandable that a dominant consideration should have been to ensure that the products of the farm, the forest and the mine would be moved to the marketplace at minimum rates. It is not surprising, in view of the fact that competition was a relatively insignificant factor in those days, that supervision and control of railway freight rates by public authority should then have been so important an element in the transportation policy of the nation.

The practical application of this early policy found expression in what is known as the value of service principle. Relatively low rates were granted for low-valued and raw commodities. Higher rates governed the movement of processed commodities and those of high value. When first established, the low rates for low-value primary products covered the direct costs of rail haulage and made a relatively small contribution towards overhead. Rates

on processed goods and high-value commodities, while intended to offset the relatively low return on unprocessed and low-value products, were nevertheless not so high as to prevent or discourage their movement.

Changed Conditions

Today, however, the situation is vastly different from that which hitherto has prevailed. No longer are railways the exclusive means of transportation for the high-value traffic upon which they relied to offset the marginal revenues derived from the haulage of primary commodities. The growth of other modes of transportation has rendered high-value traffic vulnerable to competition. Truck competition has become more intensive because, unlike railways, the trucking industry is not required by law to carry all types of traffic at published scales of rates, enjoys the privilege of using public highways at low cost, and is relatively free from regulation.

In other circumstances the railway industry would be in a strong position to meet the emergence of truck competition because the average of truck costs is probably three times the average of rail freight costs.

Averages, however, are often misleading. In 1952, while the average cost to freight shippers using our railway was only 1.3 cents per ton mile, railway freight rates ranged from about one-half cent per ton mile on a large volume of traffic to ten cents and more per ton mile on certain high-value commodities. It is, of course, the latter commodities which are most vulnerable to truck competition.

The serious problem confronting the railways is that of meeting truck and other competition while they themselves remain bound by a pattern of rates designed at a time when competition was a relatively unimportant factor.

The need for greater freedom in rate-making is not felt in Canada only. In the United Kingdom recognition of this need has found expression in the repeal by Parliament of legislation which had hitherto deprived British railways of equality of opportunity to compete with highway transportation. Important new principles aimed at bringing about greater flexibility in rate-making have been adopted. In the United States, too, there is a growing awareness of the need of the railways for relief from outmoded regulations. Action to remedy the situation is being taken which, it is expected, will find expression in legislative proposals to be presented to Congress later in the year.

AMERICAN ESTIMATE OF CORONATION COST

The coronation festivities created a considerable demand for money in Britain over and above the expansion that usually takes place at this time of year. The actual note circulation during coronation week reached £1,544 million, only about £6 million less than the sum in circulation last Christmas. Withdrawals from savings accounts in the week preceding the ceremony exceeded deposits by £5 million. The net cost of the coronation to the taxpayers is estimated at the equivalent of about $4.6 million. On the other hand, there was a gain in dollar tourist revenue of about $17 million and in other tourist revenue of about $8.4 million directly attributable to the coronation. On the debit side of the ledger must be put a decline in production and exports during the holiday.

From Guaranty Survey, New York, July 1953

Industrial Progress in South Africa

BY F. J. DU TOIT
Chairman of Union Council for Development of Natural Resources

The story of amazing advances despite shortage of capital, and of the present over-concentration of industry—sixty per cent of all industries covering less then three per cent of the country's surface.

A STUDY of the distribution in South Africa of the existing industries is illuminating.

The Union's four main harbours —Cape Town, Port Elizabeth, East London, and Durban—on the one hand and the great complex of the Witwatersrand on the other contain the main concentrations of the industries. Of all industrial establishments 36 per cent are found within these five areas and over one-fifth of all establishments are on the Rand.

Considering industrial establishments employing ten or more workmen, we find that over three-fifths are concentrated in the five main areas mentioned and two-fifths are situated on the Rand.

This concentration of industry becomes even more glaring if one considers that over three-quarters of all industrial workers are to be found in the five main areas, and nearly two-thirds of all industrial workers earn their living on the Rand.

One cannot speak in terms of 'over-industrialisation' or 'over-concentration' in the Union when bearing in mind conditions which prevail in the highly industrialised countries of Western Europe and North America, but considering our small white population and the vast expanse of our country a certain amount of anxiety over the present position of disequilibrium is justified. The over-burdening of a few areas with a comparatively high density of industrial activity—about 60 per cent of all industries are concentrated in districts covering probably less than three per cent of the country's surface—may become the source of certain dangers and social evils, especially in the complex multi-racial society which exists in the Union.

The concentration of industry was and is even today being assisted, not only by the available transport facilities, but also by the railway tariff policy applied to date which definitely favours the location of industries in the few existing centres. The volume of traffic on the South Africa Railways has constantly grown, and it is due to their excellent management that they have been able to cope with it without serious breakdowns. The harbours, too, are often overloaded, despite constant modernisation, expansion, and improvement.

Proposed New Harbour

It is for these reasons, *inter alia*, that the building of a new harbour on the north coast of Natal has recently gained the renewed attention of the Union Government. This new harbour would not only lighten the load of Durban and create a new

From The Natural Resources of South Africa, South Africa House, London, 1953

outlet for the minerals (mainly coal from the Transvaal and manganese ore from the Northern Cape), but the connecting railway line would open up a new stretch of country in the high-rainfall area at a time when it may be necessary to 'license' new large water-consuming industries on the Rand in order that the water resources of the Rand should be put to use for the best possible purposes.

With the industries relying to an ever-increasing extent on local raw materials it is not essential for them today to be located at the main ports of entry or on the Rand. For example, it would be inadvisable for at least such industries requiring a great amount of water and producing highly noxious or poisonous effluents to settle in the Rand-Vereeniging area.

Electric power production has, just as transport, naturally developed mostly in the areas of greatest demand. The position here is similar to that of rail services, i.e., the ever-increasing demand threatens to outstrip supply, despite the present enormous construction programme. Fortunately, with abundant reserves of coal the basis for a far greater expansion is assured, at least in the northern, north-western, and eastern parts of the country.

Urban Population Distribution

It follows that the distribution of the urban population should show the same pattern as the distribution of mines and industries. The total number of workmen, both European and non-European, in the mines on the Rand complex is about 300,000 while industries there afford employment to a similar number.

Considering that the Rand complex is also the economic centre of the country, with its wholesale, retail, banking, and administrative activities, one would expect it to contain the largest concentration of population, which it in fact does. Almost one-third of the Union's population is living within the catchment area of the Vaal River, the main source of water in that important area.

While there is a chronic shortage of skilled white artisans in all areas, the Union is fortunate in having a large reserve of unskilled labour among the non-whites (Coloureds and Malays in the Cape, Indians in Natal, and Bantu in all parts of the country). This actual or potential labour force, which is available for unskilled and semi-skilled work, can be regarded as one of the most important natural resources.

Bantu Labour

The Bantu are predominant in numbers. There are some nine million of them, of whom only one-third are living in the Reserves set aside for them. Another one-third find livelihood on European farms, while the remainder are more or less permanently settled in the urban areas.

The apparent cheapness of 'Native' labour tends to the employment of too many Bantu, to the detriment of efficiency in certain industries. Large numbers are migrant labourers whose productivity is lowered by consequent loss of time in training newcomers, their inexperience and inefficiency. The disruption of their family life, too, results in social evils.

The Government is encouraging the settlement of new industries in or near the Native Reserves in order to improve the standard of living there. The first few experiments made in this field are encouraging, and it has also been proved that the Bantu has

an aptitude for semi-skilled repetitive industrial work. Incidentally, most of the Reserves are in areas of high rainfall and perennial waters so that the 'decentralisation' of industries would have the immediate advantage of being assured of water supplies.

Stupendous Progress

The rapid expansion in the exploitation and development of our natural resources as reflected in increased production of mining, agriculture, and industries is also shown in the overseas trade figures of the country. The value of total external trade (imports and exports) has grown within the last twenty years (1932 to 1952) from a round £100 million to £850 million. Since 1943 the value has nearly trebled despite the fact that since 1948 import control has had to be enforced. In other words, the external trade figures show the same rapid acceleration as the other branches of the economic life of the Union.

After the war the pent-up demand for consumable goods tilted the balance against the Union, but equilibrium has practically been re-established mainly through import control, and South Africa is now in the position again to pay fully for its imports.

A very important aspect of the position is the increasing role industrial products (semi-finished products and manufactured articles) are playing in our exports. The value of these—excluding gold and gold products—has risen from £7.5 million in 1938 to over £60 million in 1950.

On the import side—partly due to control—more industrial and mining machinery is being brought into the country while in manufactured articles a notable drop in imports is evident. It would seem that the process of industrialisation is already making its influence felt on the composition of external trade.

Large amounts of capital and skilled labour are still urgently required in order to keep up the pace of development. A considerable portion of the required capital has been raised inside South Africa, but much overseas capital is still required. The gross private investment shows a remarkable increase for the period between 1946 and 1951, namely, from an annual figure of £159 million to £270 million. The inflow of overseas capital (sterling and non-sterling) showed an increase from £17 million in 1946 to £60 million in 1951.

National Income Figures

The economic position of a country and its advancement are reflected in the national income calculations which can be used as a yardstick of progress. Though strictly speaking values are not comparable over a number of years owing to the devaluations of sterling, the increases shown are of such magnitude that price increases on that account are by comparison insignificant and can be neglected.

The development can be summed up in a few figures. The total national income of the country was estimated just after Union (in 1912) at £131 million, whereas the last available figure, for 1952, is nearly ten times as much (£1,245 million).

Between these two dates all contributing economic sectors have increased their contributions (agriculture and forestry from £21 million to £213 million, mining from £36 million to £160 million, manufacturing from £9 million to £270 million, trade from £18 million to £176 million, and 'other' sectors,

which include government expenditure at all levels, transport, universities, etc., from £47 million to £398 million). It must be noticed, however, that these figures are the net so-called 'added values' and not the values of 'gross output'.

* * *

In the light of these figures the broad outlines of the future are becoming discernible. Shortage of capital and of skilled manpower and administrative staff may slow down development for a time, but there is little doubt that it will continue along the path it has entered. The natural conditions, as exemplified by the limited amount of available water, and the almost unlimited, and in many respects yet unexploited, mineral wealth of the country, together with realisation of our agricultural potentialities, point the way towards the future direction of economic development.

Trade Unions on East-West Trade

THREE straight questions about trade between East and West are answered in a new T.U.C. pamphlet, *Trade Unions and East-West Trade.*

The questions: Would expanded trade between East and West solve Britain's economic problems? Would it bridge the gap in Britain's balance of payments with the outside world? Would it at the same time ease the present East-West tension and rid the world of the threat of large-scale war?

The answer: that a change for the better in the climate of international relations might help forward increased East-West trade but that at best trade cannot be expanded in the foreseeable future to an extent which would make Britain appreciably less dependent on imports from the dollar countries or to enable her to master the problem of the balance of payments.

To those who claim that more trade would improve political relations, the T.U.C. General Council say this is putting the cart before the horse. Trade will only grow when international relations are better. They add that the eagerness of the advocates of greater trade with Communist countries has not always been matched by an equal enthusiasm on the part of these countries to place orders.

The share of the eastern countries in the pre-war volume of Britain's overseas trade has never been large. And though talks have been going on at the Economic Commission for Europe to see how much more trade can be done, there are doubts whether the Communist countries can supply what Britain most needs. At the present these countries are driving towards economic self-sufficiency.

The pamphlet stresses that obstacles to expanded trade such as restrictions on strategic exports do not exist on the Western side only. Statements made at the recent Prague trials have made it clear that Communist countries enforce them, too. In any case, while the T.U.C. General Council believe that some slight expansion of trade might be achieved by a careful review of policy on exports banned or restricted for strategic reasons, they fully agree with the need for such restrictions in the present international situation.

High Prices Wrecking India's Plan

India has believed that all high prices are good for her economy. She is now painfully discovering that life is much more complex than that

There is serious concern in India about the rising trend, both in wholesale prices and the cost of living; yet a Government spokesman has merely exhorted patience, drawing attention to the fact that whereas the maximum price of rice last year had been Rs. 40 per maund, this year the maximum price had not exceeded Rs. 25.

Calcutta critics have refused to be consoled. They point out that the Calcutta Middle Class Cost of Living Index at 392 (August 1939 = 100) represents the highest figure for this year, that in May the index was above the monthly average for the whole of 1952, and that with the new prices announced from June 1 with a return to 'economic price shops', the index is certain to pass its peak of 402 of October last year. In Bombay there is no Middle Class Cost of Living Index, official or non-official, which can be invoked. But the working class cost of living index is also rising here near its all-time peak.

Not merely do these figures record present peaks; the trend is dangerously upward. In the week ending June 6, the general index of wholesale prices was 405, ten points above the figure of a month previously. Since March 1953 Indian prices have risen by 5.3 per cent, more in fact than they rose between June 1952 and March 1953.

These figures point clearly to gathering momentum even when allowances are made, as they should be, for a seasonal factor.

What makes the situation graver is that this trend in other countries is strongly in the opposite direction. It has been pointed out in Bombay that whereas in Chicago wheat futures have declined from $2.27 at the end of March to $1.93 on June 16, Indian prices have advanced by over 9 per cent. The fact that the divergence is taking place primarily in food prices and raw materials, both of which are affecting industrial costs without equally assisting selling prices, makes matters worse. The price scissors are in full swing.

Popular Myth

There is a myth, widely circulated and apparently widely believed in India, that all high prices are good for manufacturers. This myth should be exploded.

Certainly it can be exploded at once in respect of the present price rise. The index of manufactured goods has fallen in the past year from 376 to 371 while the index of raw materials has risen from 423 to 483. In addition there has been a variable, but not less considerable, burden arising from added dearness allowances.

Private industry is not in the fortunate position of the Government of India of dropping dearness allowances which its finds inconvenient such, for example, as the Delhi proposal to discontinue in three equal instalments dearness allowances of officials drawing more than Rs. 1,000 per month. The Government of

From Eastern Economists, New Delhi, June 26, 1953

India on dearness allowance prescribes counsel for private industry which is conveniently different from its own practice. What is sauce for the goose is not sauce for the gander. And thus private industry is being fiercely held by the blades of the price scissors; it cannot make its own adjustments to extricate itself. It has no currency printing press; and cannot be a law unto itself.

No satisfaction is to be derived from the character of the price rises, which are furnishing no new inducement to capitalistic industrial production, but are removing inducements from subsistence agriculture, endangering our exports, and inflicting new hardships on India's heavily-tried middle classes.

There should not, therefore, be any difference of opinion on the need for prompt corrective action unless the belief is entertained that the interest of those agriculturists who have grain to sell is so overwhelming that it justifies the placing of the whole economy in jeopardy. The nation is losing all round by this reckless refusal of the Government of India to resolve, even at long last, on a price policy.

Vital Consumption Targets

These price rises are not good for production, and they may even hurt the production targets of the Plan. But whether they do, or do not, prevent the implementation of the production targets of the Plan, they will certainly make nonsense of the consumption targets of the Plan.

The implementation of the Plan, about which everyone seems to be talking without serious thought, is a twofold problem. It is not enough that the targets of production should be achieved. There are precise obligations on the Planning Commission to see that its targets of consumption are also achieved. The mere building up of stocks, whether of foodgrains or manufactured goods, does not constitute an implementation of the Plan.

In the Indian economy almost throughout 1952 production was rising—and in some industries even at a spectacular rate—while consumption in many cases even in physical terms was falling. This apparent paradox cries out for explanation. Essentially the malady today in the Indian economic system is that purchasing power has been distributed in a manner which makes it impossible for existing production to be fully consumed.

Causes of Maldistribution

There are three main causes for this maldistribution. In the first place, the Government of India, by the abolition in some cases and the reduction in others of the food subsidies, has prevented urban populations from maintaining their consumption of foodgrains as well as other goods at the level obtaining in March 1952.

Secondly, the incomes disbursed by increased production in 1952 have not fallen into the hands of persons who could consume that increased production; in other words, there has tended to be a rise in saving represented by a rise in inventories instead of a steady and commensurate rise of consumption with production.

Thirdly, there has been, by a maladjustment of the rate of investment in the Plan and the saving habits of the people, a withdrawal of purchasing power from the people by higher prices. Unlike the rise in prices of foodgrains which occurred, so to speak, once and for all, there is

continuing pressure on purchasing power arising from the country's attempting a rate of investment which is beyond its capacity. Until prices rise to that level at which saving is equal to investment, this pressure will continue. It is certain that, at this level, consumption in India will be considerably below that postulated in the Plan.

Plan already a failure

Two consequences follow and both are serious. In the first place, the Plan will fail on the consumption side. It has, indeed, already failed.

It was an essential condition of the Plan that it should provide at its end for a return to pre-war consumption standards at least in food and cloth. Mid-way in the Plan we have suddenly discovered that instead of making headway on food consumption, we have made a signal retreat. The rise in food-grain prices has resulted in Bombay, Ahmedabad and Poona in a reduction of net consumption on an average of about 12 per cent. And if food prices are not reduced, this implies that in food at least consumption targets in the Plan will never be achieved. The existing trend in food prices shows that things are getting worse.

The second conclusion is as hard as the first. Since consumption in India cannot be maintained at the existing level of long-term investment, equilibrium without rising prices can only be restored by a radical revision of the Plan.

This does not necessarily mean a reduction in total investment; but it certainly means a reduction in the direction of investment. If, for example, Hirakud cannot give commensurate return in the short period, Hirakud should be placed in cold storage and something which can produce output which can be quickly consumed should be put into its place.

The direction of investment in the Plan today is certainly mistaken. Purchasing power is being thrown into the wrong places, with the result that there is no deflationary influence operating to avert the rising price trend. *We need more food at a price which admits of its consumption quickly and not in the very long period.*

Food Subsidies Essential

The central problem in stimulating consumption now is price. It is food prices which are at the centre of the trouble, and food prices were unleashed with the removal of the food subsidies. In the short period the only remedy to this situation is a restoration of the food subsidies, even if it increases the level of deficit financing. This is the only kind of deficit financing which can be deflationary in both the short and the long periods. In the longer period, remedies for the deficiencies in purchasing power arising from a misdirection of current investment will need to be corrected. These should be the subject of study by a high-powered committee which should be immediately appointed by the Government of India.

The Plan itself is at stake. But the Plan is less than the men and women of India. The middle classes of India have borne in the last ten years an almost unbearable strain. Because they have not cried out, it is too often assumed that they are not near breaking point. This is the time to remind ourselves that every heart has its breaking tension. We do not know where it is; or when it will come. The time is sudden; and we should not take a chance on the souls of men.

Problems of Arab Countries

BY SA'D HIMADEH

(1) USURY

THE solution of the problem of usury has been attempted in most Arab countries by establishing State agricultural banks, but with little or no success.

The State agricultural banks, because of the great risk involved, cannot lend to landless peasants without some acceptable security. Their mortgage dealings with small landowners must continue to be expensive to the borrowers and troublesome to the banks. The typical Arab peasant, whether landless or landowner, does not possess the knowledge and strength of character required to limit his borrowing to his repaying capacity and to use the borrowed money productively.

At the same time it is exceedingly difficult for the bank to ascertain the character and capacity of the borrowers and to supervise their use of loans. This is evidenced by the large proportion of defaulting debtors experienced by all agricultural banks in Arab countries. An agricultural bank will succeed only when it deals with large landowners and men with relatively advanced business understanding.

Usury can be remedied best by co-operative credit societies of the 'Raiffeisen' type. The 'Raiffeisen' system will solve the difficulty of ascertaining the right to credit and of supervising the use of loans which financial institutions face when lending to peasants individually and directly. The joint liability of the members, together with their organised mutual supervision of use of loans, will enable outside institutions to extend credit to them more freely. Loans by a society to its members will be made not on mortgage of their land, but on their honesty and punctuality in payment, and therefore landless tenants will be readily admitted to a society if they possess these qualities. In consequence of the above, the peasants who are members of credit societies will be able to procure credit at reasonable cost.

There will doubtless be some difficulties in organising such self-governing institutions among peasants who are illiterate, but these difficulties do not seem to be greater than in India and Cyprus where the co-operative movement has been successful.

The societies will, of course, need considerable financial and directive help during the early stage of their development. The financial needs in the early years can admirably be met by the State agricultural banks where they exist, or by private commercial banks where they exist, or by private commercial banks with Government guarantee. Promotion and direction may be advantageously entrusted to the suggested Land Development and Reform Board.

It is true that the experience of some of the Arab countries with this system has not been encouraging, but this was primarily due to inadequate promotion and direction. The success of the 'Raiffeisen' societies depends very largely on the qualification of the registrars, who should be men of exceptional ability and specialised training.

From Alhaiy'at, International Islamic Economic Organisation, Karachi, March 1953

(2) MASHA' LAND SYSTEM

Chief among the many other economic problems that need solution are the semi-collective ownership of village land by its inhabitants, called *Masha'*; the fragmentation of land holdings; the poor marketing mechanism for agricultural produce; the inequitable agricultural taxation, and the instability of nomadic life.

Where it exists the *Masha'* system is the greatest hindrance to agricultural development, because periodic repartitioning and reallotment of land among co-owners for the purposes of cultivation prevents investment in the land, such as trees or other long-term improvements.

The obvious remedy is to force permanent partitioning and allotment of the land. This measure was attempted in several Arab countries, but the fact that in some countries it was made conditional and in others it was opposed, left many village lands held in undivided ownership.

In the periodic repartitioning of *Masha'* land, it is usual to divide it into a number of sites in each of which the individual is allotted the due number of shares; where the number of shares is small the allotments very often consist of uneconomic small holdings.

But by far the greatest fragmentation is due to the laws of succession which prevents bequeathing to legal heirs. Accordingly heirs receive prescribed shares in each piece of land of the deceased's estate. Successive partitioning of land among heirs results, in very many cases, in ownership by an individual of several narrow and long strips of land unsuitable for intensive cultivation.

Attempts were made in some Arab countries, during *cadastral* land surveys and settlement of rights, to consolidate strips of land belonging to one individual by barter, or to require the owner of a small strip to transfer it to a neighbouring owner.

This measure was fairly successful, but it does not help to reduce fragmentation in the future. In Iraq, the Government attempted solution by requiring that no parcelling, following succession, could go beyond prescribed minimum economic holdings. Used together these two measures will provide a fairly satisfactory solution to the problem of strip cultivation.

(3) AGRICULTURAL MARKETING

Marketing of agricultural produce is, in general, very unsatisfactory. The producer of cereals is usually bound to sell to or through the merchant money-lender from whom he customarily borrows in cash or in kind. The producer of fruits and vegetables usually takes his produce to the market and sells it through a middleman, called, in most Arab countries, 'Muallim'.

Both middlemen are noted for their exploitation of cultivators, particularly the former. Consequently, the cultivator can rarely obtain a fair price for his produce. The situation of the vegetable and fruit grower is aggravated by the fact that he does not grade or properly pack his produce, either because of ignorance of their benefits to him, or because he produces a little of several things which makes grading and packing not worth the effort involved. In addition he loses much time in making trips to the market for selling his products. These marketing problems of the cultivator can be solved best by marketing co-operatives. The promotion of such co-

operatives may also be advantageously entrusted to the suggested Land Development and Reform Board.

(4) TAXATION

Agricultural taxation in most Arab countries is neither fiscally adequate nor is it equitable. Landlords have evidently been able to keep down their share of the tax burden. In Syria and Iraq, agricultural taxation consists of a tax on agricultural and animal produce sold in designated internal markets or exported, which has replaced the 'commuted *tithe*' and the '*werko*' (a tax on land value). On the same quantity so marketed the tenant farmer pays as much as the owner-cultivator, and both pay as much as the absentee landlord. The landlord pays no separate tax on the rent of his land, and the income-tax in the two countries does not subject rentals to taxation with other incomes. Furthermore, land that is left uncultivated because of the landlord's neglect escapes taxation altogether.

In the Lebanon the old 'werko' and 'commuted' tithe taxes were only joined together to form what is called the 'Unified Land Tax'. The tax is fixed and for many years no adjustment has been made to cope with the rise in prices. Besides, its collection is very poor. Consequently, the revenue from this tax is negligible.

A project law for a tax on annual value to replace the 'Unified Land Tax' was submitted to the Parliament about five years ago, but has not yet been acted upon. In Egypt, the agricultural tax is a fixed rate of average rental value of land, with exemption for very small assessments and varying remission for assessments below £E 10/-. Aside from this progressive feature in Egypt, there is no Arab country so far as I know where progressive taxation reaches land rents.

It is difficult to describe in a few words the kind of reform needed. Briefly, I would suggest a tax on net annual value of land on the model of the Rural Property Tax of Palestine; and that the income from land be added to the other income of the individual for the purpose of progressive taxation, as was the case in Palestine and has doubtless continued in Israel. This would provide in addition to equity, larger revenue —which may be used for social services in rural areas—and, in the case of Syria and Iraq, greater impetus for increase in areas under cultivation and for sale by big landlords of neglected lands.

(5) NOMADS

The solution of the problem of the nomads is indispensable for their economic security as well as for the security of the settled agriculturists. The nomads are the sector most affected by climatic variations. Drought means starvation for their livestock and themselves; at the same time it offers greater temptation for encroachment on the wealth and crops of the settled population. Though much less common than in the past, raiding, robbery, and damage to crops still prevail.

Settling nomadic people in the areas newly brought under irrigation in the outskirts of the desert should be seriously considered. It is often said that such settlement would result in the loss of a large portion of animal produce for which the Middle East has great need. This would not necessarily be the case. Pasturing

livestock could continue in the desert during the forage season, while in the other seasons feeding would take place in the areas of settlement. In fact, pasturing could be done on a co-operative basis, thus saving considerable time to use in agriculture. Trained herdsmen would be entrusted with pasturing and improvement of stock.

Much can be gained from the experience with the 'Alternative Livelihood Schemes' in the Sudan. Semi-nomadic tribesmen there were settled and made to practise 'an entirely new system of farming in a different area and environment from their traditional one, while maintaining the best features of a tribal organisation and developing the corporate life of compact village groups'.

Publications of United Nations and Specialised Agencies

Statistical Yearbook 1952. Prepared by the Statistical Office of the United Nations, New York, 1953. (Available from H.M. Stationery Office, cloth-bound 55/-, paper-bound 45/-.)

This is the fourth issue of the Yearbook, which in 177 tables gives figures, mostly for a twenty-year period, concerning population, agriculture, mining, industrial production, balance of payments, finance, social statistics, education and culture. Many tables have been expanded and a few new series added. The Yearbook maintains its place as the most comprehensive reference book on international statistics.

Yearbook of Food and Agricultural Statistics 1952. *Part I: Production*. F.A.O., Rome, 1953. (Available from H.M. Stationery Office, 17/6.)

In addition to Part II: Trade, already reviewed in the June issue of *Economic Digest*, Part I: Production, of the F.A.O. Yearbook is now available. New features include a table on irrigated land, new data on meat production, and tables on animal fats.

Yearbook of Fisheries Statistics 1950-51. F.A.O., Rome, 1953. (Available from H.M. Stationery Office, 17/6.)

General Agreement on Tariffs and Trade, Analytical Index of the General Agreement. Geneva, February 1953.

Report of the *ad hoc* Committee on Restrictive Business Practices to the Economic and Social Council (Doc. E/2380, E/A C 37/3), New York, 30 March 1953.

European Steel Exports and Steel Demand in Non-European Countries. E.C.E., Geneva, April 1953. (Obtainable from Sales Section, European Office of the United Nations, Geneva, 9/-.)

Economic Bulletin for Europe, Vol 5, *No.* 1. E.C.E., Geneva, May 1953. (Obtainable from H.M. Stationery Office, 3/9.)

Contains the usual features and a special article on the Expansion of Western Europe's Flat Products Capacity.

World Facts and Figures. United Nations, New York, May 1953. (1/9.)

A short, popular digest of salient facts from the U.N. Statistical Yearbooks.

World Economic Report 1951-52. Now available in print. (11/-.)

Restrictive Business Practices. Report of the *Ad Hoc* Committee, Economic and Social Council, Official Records, 16th Session, Supplement No. 11, New York, United Nations, June 1953. (1/9.)

Contains draft proposals for an international agreement.

Restrictive Business Practices. Analysis of Government Measures relating to Restrictive Business Practices. Economic and Social Council, Official Records, 16th Session, Supplement No. 11A. (4/6.)

Hydro-Electric Potential in Europe and its Gross, Technical and Economic limits. E.C.E., Geneva, 1953 (available from Sales Section, European Office of the United Nations, Geneva. 7/6).

Coal and Iron Ore Resources of Asia and the Far East. ECAFE, Bangkok, 1953. (11/-.)

Fields of Economic Development handicapped by lack of trained personnel in certain countries of Asia and the Far East. ECAFE, Bangkok. (5/-.)

Commodity Reports, Fibres No. 5: Silk. F.A.O., Rome, 1953. (1/3.)

New Books Reviewed

The Logic of British and American Industry, by P. Sargant Florence, Routledge and Kegan Paul Ltd, London, 28/-.

The sub-title declares that this is 'A realistic analysis of economic structure and government', and so it is. Professor Sargant Florence, who remains an American citizen in spite of his English training and his eminence in English academic life, is ideally equipped to take both countries into his scope. It is a minor point, perhaps, but one that every reader will appreciate, that he has introduced into his book some of the admirable characteristics of American text-books—not a mere contents list, but six pages summarising each chapter; and summaries of findings, research methods and practical conclusions as well as a dozen pages of index. There are other devices (we instance the list of structural and technical characteristics of industry set forth on page 227, where the author has taken trouble himself so as to save the reader the constant bother of referring back), which strike us as the height of good manners. These are not merely trifles, for they make for pleasure in reading what is essentially a profound study. In a sense the book is an up-to-date version of the author's *Logic of Industrial Organisation* which appeared in 1933, but the world has marched far and fast in the intervening twenty years, and only a completely new work—which this is—could meet the situation. The scope of the work may be indicated by its sections; (1) The Structural Approach; (2) Logic and Fact of Industrial Structure; (3) The Relations of Industry and Consumer; (4) Relations Within the Modern Firm; Management and Top Government; (5) Government of Free Enterprise Capitalism; (6) Nationalisation, Co-operation and State Control; (7) The Stimulus to Labour, Investment and Enterprise; (8) Summary and Conclusions. It is dangerous to use superlatives about a work of this calibre, but certainly one of its greatest virtues is its pulling into focus of all sorts of burning questions by taking both Britain and America into its scope. There is no nonsense here in the way of stark contrast between 'Socialist Britain' and 'Private Enterprise America'. The similarities between the countries where one might expect contrast is often striking. For instance: 'As a regulator, controller and supervisor of otherwise private enterprise public authority, national and state, seems no less prevalent in America than in Britain'.

Studies in the Structure of the American Economy, by Wassily Leontief and others, Oxford University Press, Oxford and New York, 55/-.

The principal author is Professor of Economics at Harvard, and he has associated with himself nine other authors, three at least of whom are practical administrators. Professor Leontief is, however, himself the author of four of the twelve chapters. The book as a whole is a report of a four-years research project carried out at Harvard, addressed to input-output analysis, and seeks 'to lay an elaborate and well-integrated foundation for the empirical study of long-run problems'. That, however, is a long-run aim, and the immediate concern here is with the structural interrelations in the economy today and in the immediate past. Some of the book is highly theoretical, but many of the chapters (e.g. the technological structure of the cotton textile industry) have their feet firmly on the earth.

British Exports and Exchange Restrictions Abroad, Swiss Bank Corporation, London, May 1953.

This is the seventh edition of a compilation we have praised before. Countries are listed alphabetically, followed by all the relevant information and winding up with trade figures for 1950, 1951 and 1952 between Britain and the country concerned.

Marxism, An Interpretation, by Alasdair C. MacIntyre, S.C.M. Press, London, 8/6.

An extremely useful little book. The author's approach is philosophical, and he makes a scholarly attempt at appraisal of a subject which is far too often dismissed as pure white or deepest black. The Christian dilemma is admirably stated and honestly faced.

Free Trade Challenge by Deryck Abel, Liberal Publication Department, London, 1/-.

The fact that the author is secretary of the Free Trade Union and that the publisher is a political party ought not to prevent anybody who needs to come by the free-trade case in a nutshell from turning to this pamphlet, for it is a highly competent piece of work. If the behaviour of every nation is protectionist, there never was a period when the doctrine of free trade was more persistently proclaimed by eminent economists.

FOR REFERENCE

Items in this Section are kept for one year at the offices of Economic Digest. They are available to members of the Economic Research Council and readers by arrangement. Please write, citing reference number of items given in brackets, to 18 South Street, London, W.1, or telephone GROsvenor 4581.

Banking: *La tecnica delle 'financial ratios' by Dr Giuliano Coppula D'Anna, Bancaria, Associazione Bancaria Italiana, Rome, May* 1953. Study of technique of American banks in assessing value of balance sheets of customers seeking credit. The financial ratios are a device to facilitate comparisons between firms of different sizes. (In Italian). (356)

Agricultural Products: *International Trade in Agricultural Products, Public Price Policies and Trends in International Trade,* reprinted from Journal of Farm Economics, Vol. XXXIV, No. 5. The author is Mordecai Ezekiel of F.A.O. Scope is indicated by title. (357)

Sugar: *Observations on the Proposed International Sugar Agreement, Monthly Bulletin of Agricultural Economics and Statistics, F.A.O., Rome, June* 1953. This very full statement has been transmitted by F.A.O. Committee on Commodity Problems to the International Sugar Conference. (358)

California—Oranges and Lemons: *Oranges and Orange Products, by Sidney Hoos and J. N. Boles; and Lemons and Lemon Products, by Sidney Hoos and R. E. Seltzer,* bulletins (each with statistical supplements) published by the College of Agriculture in the University of California. Apart from the interest of the subject matter of each of these publications, they are admirable examples of the local service that may well be expected of provincial universities. (359)

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